

ENCYCLOPEDIA  
OF BANKING AND FINANCE



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# ENCYCLOPEDIA OF BANKING AND FINANCE

A REFERENCE BOOK COMPRISING OVER 3,000 TERMS RELATING TO MONEY; CREDIT; BANKING PRACTICE, HISTORY, LAW, ACCOUNTING AND ORGANIZATION; FOREIGN EXCHANGE; TRUSTS; INVESTMENTS; SPECULATION; MARKETS; AND BROKERAGE

BY

GLENN G. MUNN, M. A.,

Author of "The Paying Teller's Department"

*Formerly Instructor in Economics and Finance, New York University, and With the Chase National Bank, New York City; Associate Editor of The Bankers Magazine; Editor "Standard Service on Railroads" of the Standard Statistics Company, New York City; Instructor in Banking and Economics, Hudson County (N. J.) and Elizabeth Chapters, American Institute of Banking.*



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AND REGULATIONS

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EXPLANATION

For sake of brevity the initials *q. v.* (Latin for *quod vide*), meaning which see, has been used throughout to indicate cross references.

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## INTRODUCTION

**I**N ADDITION to the general encyclopedias, many of the more important branches of knowledge have brought forth special encyclopedias of their own. There have appeared encyclopedias of law, medicine, engineering, economics, literature, accounting, business, and other subjects. In fact, many of these subjects can boast of several specialized encyclopedias. Because of the scope, complexity, and growing importance of banking and finance in the economic life of the nation, it would appear that an encyclopedia of banking and finance is altogether fitting. Accordingly, the publication of this volume marks the advent of the first encyclopedia of American banking and finance.

In a country where there are over 30,000 banking institutions (of various types); the total value of securities reaching an aggregate of over one hundred billion dollars; millions of dollars of new securities being offered for sale to the public annually; practically every business having relations with a bank in one or more important respects; over 90 per cent. of the business transacted by means of credit paper; the check system in practically universal use; banking and currency regulated by law and regulatory bodies more strictly than in most other countries; and interest in wealth, money, credit, finance, foreign exchange and trusts, constantly growing; the need for an authoritative encyclopedia, covering the entire subject-matter of these related branches, should be too obvious to require further emphasis. Certainly, the banking and financial field is entitled to be dignified by placing an encyclopedia at its disposal quite as much as other professions where encyclopedias have already been provided.

There may be some objection to the designation of this book as an encyclopedia. It is true that terms and expressions, as well as financial slang, have been selected without reference to their dignity. The sole test of admissibility has been whether the term finds a place in the actual vocabulary of bankers, investors, financiers and brokers. Some of these terms and expressions, having been borrowed from other fields, have an entirely distinct and separate connotation in the language of finance. Many definitions will necessarily appear to be distorted unless they are viewed in their specialized sense—that of finance. But wherever possible, it has been the aim to interpret the several applications of such terms, including the general, but always with particular weight given to the banking or financial approach. While in many cases definitions and explanations are brief, especially where special meanings are denoted, it will be found that on the whole, both as respects the number of terms included and the detail with which the subject-matter is treated, the work is truly of an encyclopedic character. This contention is reinforced by the fact that in the great majority of instances cross references to other terms are cited, and in the case of the more important subjects, bibliographies are appended.

While this volume claims to be the first encyclopedia of American banking and finance, there is no intention on the part of the author or publishers to create the impression that this is the first work presenting definitions of terms belonging to this field.

In 1919, a very excellent and complete "Dictionary of Banking" dealing exclusively with British practice was published in London with William Thompson as author. Owing to the many differences between American and British banking systems, laws, practice, and nomenclature, however, this book could perform but scant service in the United States.

This encyclopedia of banking and finance has also had its American predecessors. In 1903, Mr. Howard Irving Smith published a "Financial Dictionary," which has long since been out of print. This was followed in 1907 by Mr. Montgomery Rollin's "Money and Investments," primarily intended as a handbook for investors.

In 1911, there appeared "The Financial Encyclopedia," edited by Mr. C. A. Shea. This was a two volume work of somewhat greater pretentiousness, and contained definitions of many business terms. In 1923, the Thomas Y. Crowell Company brought out "Crowell's Dictionary of Business and Finance," which is chiefly a compendium of business terms.

None of these volumes, although excellent as far it goes, covers the same field or was designed to meet the same purpose as this encyclopedia. The essential function of this volume is to serve the banking, financial, and allied vocations by explanations of somewhat greater length than has heretofore been attempted—of the subjects that are comprehended within the limits of this department of economic life. It lays no claim to being a business encyclopedia.

In the sense that this book presents subjects with which practically every individual and business necessarily has an interest, its appeal as a reference work should be almost universal. Its most direct appeal, however, is to banks and trust companies (executives and employees), investment and stock exchange houses, insurance companies, financiers, brokers, investors, speculators, lawyers, and students of banking, finance, and markets. As an aid to university students specializing in courses in applied economics, this compilation should prove indispensable.

In the preparation of this encyclopedia, which has covered a period of nearly three years, it has been the author's aim to attain three ends, viz.: (1) comprehensiveness, (2) accuracy, and (3) convenience.

*Comprehensiveness.* This book contains some 3,050 terms. These have been gained from the author's seven years' experience in teaching classes in banking, finance, and economics; from first-hand acquaintance with the affairs of the "Street"; and from an extensive search of the bibliography of the field, including the banking and financial magazines, and the reports and publications of the various official organizations concerned with the regulation of banking. As a result, this volume is more than a mere glossary or list of definitions. A full exposition of the most important subjects is presented. There has also been included the text of the principal banking laws, and the forms and phraseology of the principal instruments of banking and finance.

*Accuracy.* An honest attempt has been made to achieve accuracy. Original sources have been employed wherever possible. The work of the author has been reviewed by six different experts in their own field. Great care has been taken to secure fine distinctions. In many instances, several meanings or applications of the same term have been stated. The manuscript has been read twice in galley-proof and twice in the page-proofs.

*Convenience.* A tremendous mass of organized information pertaining to money, banking, credit, and finance has been brought within the covers of a single volume. Whatever other advantages this encyclopedia may possess, it should prove a valuable time-saving device for locating desired information quickly. Being alphabetically arranged, it is an automatic index, and should be considered a labor-saving device in a bank or investment house just as much as a telautograph, annunciator, or book-keeping machine. Cross references have been widely employed. Thus, the reader is given access to all aspects of a subject by bringing his attention to related subjects.

Grateful acknowledgment is made of the co-operation received from the following persons who reviewed separate portions of the encyclopedia, and who made many valuable suggestions and criticisms: Eugene E. Agger, Ph. D., associate professor of economics, Columbia University, reviewed the terms pertaining to money, credit, and banking history and principles; L. H. Langston, M. S., author of "Practical Bank



Operation," and President of the Benjamin Franklin Institute, reviewed the terms pertaining to practical banking and foreign exchange; Harold Dudley Greeley, LL. M., C. P. A., (N. Y.), practicing public accountant, member New York Bar, and lecturer at Columbia University, reviewed terms pertaining to accounting and auditing; Henry Hazlitt, formerly financial editor of the New York Evening Mail, reviewed terms pertaining to speculation, markets, and brokerage; J. E. Brady, LL. B., editor of The Business Law Journal, reviewed terms relating to trusts and bank law; and Richard Roelofs, Jr., of Hallgarten & Company, New York City, reviewed terms on investments.

The writer is also indebted to a number of publishing houses and other organizations which have kindly granted permission to quote passages from the following authors and books. Further reference to these books and authors is made either in footnotes to the text or in connection with bibliographies at the conclusion of certain terms:

## D. APPLETON &amp; COMPANY

- S. S. PRATT: *The Work of Wall Street.*  
 J. G. CANNON: *Clearing Houses.*  
 S. S. HUEBNER: *The Stock Market.*  
 J. T. HOLDSWORTH: *Money and Banking.*  
 F. A. CLEVELAND: *Funds and Their Uses.*  
 H. R. HATFIELD: *Modern Accounting.*  
 A. C. WHITAKER: *Foreign Exchange.*

## THE RONALD PRESS COMPANY

- W. H. LOUGH: *Business Finance.*  
 R. J. BENNETT: *Corporation Accounting.*  
 L. H. LANGSTON: *Practical Bank Operation.*

## THE MacMILLAN COMPANY

- W. E. LAGERQUIST: *Investment Analysis.*  
 R. T. ELY: *Outlines of Economics.*  
 KIRKBRIDE, STERRETT & WILLIS: *The Modern Trust Company.*  
 C. E. PHILLIPS: *Bank Credit.*  
 J. E. BOYLE: *Speculation and the Chicago Board of Trade.*

## HENRY HOLT AND COMPANY

- L. CHAMBERLAIN: *Principles of Bond Investment.*  
 H. R. SEAGER: *Principles of Economics.*

## GINN AND COMPANY

- J. F. JOHNSON: *Money and Currency.*  
 H. WHITE: *Money and Banking.*

## HARPER BROTHERS

- C. A. CONANT: *The Principles of Money and Banking.*

## DOUBLEDAY, PAGE &amp; COMPANY

- S. P. GOLDMAN: *Stock Exchange Law.*

## UNIVERSITY OF CHICAGO PRESS

- H. G. MOULTON: *Financial Organization of Society.*

INTRODUCTION

UNIVERSITY OF TORONTO PRESS

M. A. MACKENZIE: *Interest and Bond Values.*

ALEXANDER HAMILTON INSTITUTE

A. W. ATWOOD: *The Exchanges and Speculation.*

LaSALLE EXTENSION UNIVERSITY

O. H. WOLFE: *Practical Banking.*

MOODY'S INVESTMENT SERVICE

P. CLAY: *Sound Investing.*

THE WORLD ALMANAC

*Interest Tables.*

It is clearly recognized that a work of this compass may not be wholly free from error and that it is capable of improvement and elaboration. Suggestions for additional terms, and criticisms relating to included terms, or otherwise, will be welcomed.

New York City, May 1, 1924.

GLENN G. MUNN



# A

## Abbreviations

@.....	At	Bk.....	Bank
A.....	Class A Bonds and Stocks	Bkg.....	Banking
A1.....	Highest Class; best grade; gilt edged	B/L.....	Bill of Lading
A & F.....	Semi-annual payments of interest in April and February	B/L Att.....	Bill of Lading attached
A & F 15.....	Means interest payable in August and February 15; likewise for other combinations, <i>e. g.</i> , A & O, J & J, etc.	Bol.....	Bolivar in Venezuela
A and F.....	Same	B/P.....	Bills Payable
A & O.....	Semi-annual payments of interest in April and October	B/R.....	Bills Receivable
A and O.....	Same	B/V.....	Book Value
A. C.....	Assistant Cashier	¢.....	Cent in the United States and Canada
A/c.....	Account	c.....	Centavo or Centime
Acc.....	Acceptance	C.....	Class C Bonds or Stocks
Accrd. Int....	Accrued Interest	C. A.....	Chartered Accountant
Ack.....	Acknowledgment	Cab.....	Cables
Acpt.....	Acceptance	C. A. F.....	Cost, assurance and freight
A/cs Pay.....	Accounts Payable	Can.....	Cancellation
A/cs Rec.....	Accounts Receivable	C. & F.....	Cost and freight
a/d.....	After date	C. and F.....	Cost and freight
Adj.....	Adjustment	C. & I.....	Cost and Insurance
Admstr.....	Administrator	Cap.....	Capital
Ad. Val.....	Ad Valorem	C/B.....	Cash Book
Adv.....	Advise	C. C.....	Cashier's Check
Ag't.....	Agent	C/D.....	Certificate of Deposit
Ag'y.....	Agency	C. D.....	Cash Discount
A. J. O. J.....	Quarterly payments of interest or dividends in April, July, October and January	Cert.....	Certification
A. Kr.....	Austrian Kronen (crowns)	C. H.....	Clearing House
A. N. F. M....	Quarterly payments of interest or dividends in August, November, February and May	Chgs.....	Charges
A/P.....	Authority to Purchase	Chq.....	Cheque
Ass't.....	Assessment	C. I. F.....	Cost, Insurance and freight
Asst. Cash....	Assistant Cashier	C. I. F. & C...	Cost, Insurance, freight and charges
Aud.....	Auditor	Ck.....	Check
Av.....	Average	C. L.....	Car Load Lots
B.....	Balboa in Panama	C/L.....	Cash Letter
B.....	Bolivar in Venezuela	C. O. D.....	Collect (or cash) on Delivery
B.....	Class B Bonds or Stocks	Col. or Coll...	Collateral
Bal.....	Balance	Coll.....	Collection or collections
B. & L. Assn..	Building and Loan Association	Coll/L.....	Collection Letter
B/D.....	Bills Discounted	Com.....	Common, or Commission
B/E.....	Bill of Exchange	Com'l Ppr....	Commercial Paper
Bel. Fcs.....	Belgium Francs	Comm.....	Commission
		Comp't.....	Comptroller
		Con.....	Consolidated
		Cons.....	Consolidated
		Consol.....	Consolidated
		Contra.....	Against
		Conv't.....	Convertible
		Corp.....	Corporation
		Corspdt.....	Correspondent
		C. P. A.....	Certified Public Accountant
		Cps.....	Coupons
		Cr.....	Creditor, or Credit

- C. S.**.....Capital Stock  
**C/T**.....Cable Transfer  
**Ctfs.**.....Certificates  
**Cts.**.....Certificates  
**Cum**.....With  
**Cv.**.....Convertible  
**Cvt.**.....Convertible  
**Cy.**.....Currency  
**Cz. Kr.**.....Czecho-Slovakia kronen  
                                 (crowns)  
  
**D.**.....Pence in the British Empire  
**D.**.....Dinar in Serbia  
**D.**.....Director  
**D/A.**.....Documents against acceptance  
**D. & J.**.....Semi-annual payments of inter-  
                                 est or dividends in De-  
                                 cember and June  
**D. & S.**.....Demand and Supply  
**D/D.**.....Days after date  
**D/D.**.....Demand Draft  
**Deb.**.....Debenture  
**Dem.**.....Demand  
**Dep.**.....Deposit  
**Dir.**.....Director  
**Disc.**.....Discount  
**Div.**.....Dividend, or Divisional  
**D/L.**.....Demand Loan  
**Dls.**.....Dollars  
**D. M. J. S.**.....Quarterly payments of inter-  
                                 est or dividends in Decem-  
                                 ber, March, June and Sep-  
                                 tember  
  
**Dom. Ex.**.....Domestic Exchange  
**D/P.**.....Documents against payment  
**Dr.**.....Drachma in Greece  
**Dr.**.....Debtor or Debit  
**D/S.**.....Days after sight  
  
**E. & O. E.**.....Errors and omissions excepted  
**E. E.**.....Errors excepted  
**Encl.**.....Enclosure  
**End.**.....Endorsement  
**End. Guar.**.....Endorsement guaranteed  
**Ex.**.....Out of—without  
**Exc.**.....Exchange  
**Exch.**.....Exchange  
**Exctr.**.....Executor  
**Ex D.**.....Ex dividend, *i. e.*, not includ-  
                                 ing dividend  
**Ex. div.**.....Ex dividend, *i. e.*, not includ-  
                                 ing dividend  
**Exmr.**.....Examiner  
**Exp.**.....Export  
**Ex R.**.....Ex Rights  
**Ext.**.....Extension  
  
**f.**.....Florin  
**F. & A.**.....Semi-annual payments of inter-  
                                 est or dividends in Febru-  
                                 ary and August  
  
**F. & F.**.....Furniture and Fixtures  
**F. A. S.**.....Free alongside or Free along-  
                                 side ship  
  
**Fcs.**.....Francs  
**Fd. or Fdg.**.....Funding  
**Fid.**.....Fiduciary  
**Fin. Mks.**.....Finland Marks  
**Fl.**.....Holland Florin  
**fl.**.....Florin  
**Flt.**.....Flat  
**F. M. A. N.**.....Quarterly payments of inter-  
                                 est or dividends in February,  
                                 May, August and November  
  
**F. O. B.**.....Free on Board  
**Fol.**.....Folio  
**F. O. R.**.....Free on Rails  
**Forg.**.....Forgery  
**f. p. a.**.....Free of particular average  
**Fr.**.....Franc  
**F. R. B.**.....Federal Reserve Bank  
**Frgt.**.....Freight  
**Frs.**.....Francs  
**F. X.**.....Foreign Exchange  
  
**g.**.....Gold  
**G. D.**.....Good Delivery  
**Gen.**.....General  
**Gen'l.**.....General  
**Gen. Led.**.....General Ledger  
**Gn.**.....General  
**Govt.**.....Government  
**G. T. C.**.....Good till cancelled  
**Guar.**.....Guarantee  
  
**H. Kr.**.....Hungarian kronen (crowns)  
**H. O.**.....Head Office  
  
**I. C. C.**.....Interstate Commerce Commis-  
                                 sion  
**Inden.**.....Identification  
**Imp.**.....Imports  
**Imp.**.....Improvement  
**Ind. Led.**.....Individual Ledger  
**Indm.**.....Indemnity  
**Ins.**.....Insurance  
**Inst.**.....Instant; of the present month  
**Inst.**.....Installment  
**Int.**.....Interest  
**Inv.**.....Invoice  
**I. O. U.**.....I owe you  
  
**J. A. J. O.**.....Quarterly payments of inter-  
                                 est or dividends in January,  
                                 April, July and October  
**J. and D.**.....Semi-annual payments of inter-  
                                 est or dividends in June  
                                 and December  
**J. and J.**.....Semi-annual payments of inter-  
                                 est or dividends in Janu-  
                                 ary and July



- J. O. J. A.**.....Quarterly payments of interest or dividends in July, October, January and April
- Jr.**.....Junior
- J. S. D. M.**.... Quarterly payments of interest or dividends in June, September, December and March
- Jug Kr.**.....Jugo-Slavia kronen (crowns)
- K.**..... Krans in Persia
- K.**..... Swedish Krone
- K.**..... Norway Krone
- K.**..... Denmark Krone
- K.**..... Kronen in Austria, Hungary, or kroner in Denmark, Norway and Sweden
- K.**..... Austrian Kronen
- Ks.**.....Austrian Kronen
- £.**.....Pound Sterling in the British Empire
- £E.**.....Pound in Egypt
- £T.**.....Pound in Turkey
- £P or £P.**....Pound in Peru
- £ s. d.**.....Pounds, shillings, pence
- L.**.....Lira
- L. & D.**.....Loans and discounts
- L/C.**.....Letter of Credit
- L. C. L.**.....Less than car load lots
- Ld. gt.**.....Land grant
- Led.**.....Ledger
- Leu.**.....Rumanian Leu
- L. F.**.....Ledger Folio
- Lir.**.....Italian Lira
- L. L. B.**.....Liberty Loan Bonds.
- Ltd.**.....Limited
- M.**.....Mark
- M.**.....Thousand
- M. and N.**.... Semi-annual payments of interest or dividends in May and November
- M. and S.**.... Semi-annual payments of interest or dividends in March and September
- M. A. N. F.**.... Quarterly payments of interest or dividends in May, August, November and February
- Mat.**.....Maturity
- Mdse.**.....Merchandise
- M. J. S. D.**.... Quarterly payments of interest or dividends in March, June, September and December.
- Mk.**.....Marks
- Mks.**.....Marks
- M. O.**.....Money Order
- M/P.**.....Mail payment
- Mtg.**.....Mortgage
- Mtge.**.....Mortgage
- Mun.**.....Municipal
- N. and M.**.... Semi-annual payments of interest or dividends in November and May
- Nat.**.....National
- Neg. Ins.**....Negotiable Instrument
- N. F.**.....No funds
- N. G.**.....Not good
- No.**.....Number
- No a/c.**.....No account
- No Acct.**....No account
- No Adv.**....No advice
- Not. Pub.**....Notary Public
- N. P.**.....No protest
- N. P. N. A.**....No protest Non-acceptance
- N. S. F.**.....Not Sufficient Funds
- O. and A.**.... Semi-annual payment of interest or dividends in October and April
- O. B.**.....Ordered Back
- O. D.**.....Overdrawn or Overdraft
- O. J. A. J.**.... Quarterly payments of interest or dividends in October, January, April and July
- O. K.**.....Correct
- Opt.**.....Optional
- O. T.**.....On Track
- P.**.....Spanish Peseta
- P.**.....Peso
- P/A.**.....Power of Attorney
- p. a. c.**.....Puts and calls
- P. & L.**.....Profit and Loss
- Payt.**.....Payment
- P. c.**.....Per cent.
- Per Cap.**....Per Capita
- Per Pro.**....Per Procuration
- Pf. or pfd.**... Preferred
- Pi.**.....Piaster
- Pias.**.....Piaster
- P. Mks.**....Polish Marks
- P. O. R.**....Payable on receipt
- P. P.**.....Per Procuration
- Pr.**.....Preferred
- Pref.**.....Preferred
- Prem.**.....Premium
- Pres.**.....President
- Pro.**.....Protest
- Ptas.**.....Pesetas in Spain
- Q.**.....Quarterly
- Qr.**.....Quarter
- R.**.....Rouble
- R.**.....Rupee or rupees in India

**Rb.**..... Russian Rouble  
**R. E.**..... Real Estate  
**Re.**..... Rupee in India  
**Rec.**..... Receipt  
**Re Dis.**..... Re Discounts  
**Ref.**..... Refunding  
**Reg.**..... Registered  
**Rem.**..... Remittance  
**Res.**..... Reserve  
**Rfg.**..... Refunding  
**Ro.**..... Rouble  
**Rs.**..... Rupees  
**Rs.**..... Reis in Brazil or Portugal  
**Rts.**..... Rights  
  
**\$.**..... Dollar, peso, milreis (In expressing sums in milreis the \$ is used practically as a period, thus—100 milreis and 225 reis is written 100\$225)  
  
**S.**..... Sucre  
**s.**..... Shillings in the British Empire  
**S. A.**..... Semi-annual  
**S. and M.**..... September and March  
**S/D.**..... Sight Draft  
**S. D. Co.**..... Safe Deposit Co.  
**S. D. M. J.**..... Quarterly payments of interest or dividends in September, December, March and June  
  
**Sec.**..... Security  
**S. F.**..... Sinking Fund  
**Shrs.**..... Shares  
**Sig.**..... Signature  
**Sig. Mis.**..... Signature Missing  
**Sig. Unk.**..... Signature unknown  
**S. P.**..... Stop payment  
**S. S.**..... Steamship  
**Stg.**..... Sterling  
**Stk.**..... Stock  
**Substn.**..... Substitution  
**Sur.**..... Surplus  
**S. W.**..... Sent wrong  
**Swiss Fcs.**..... Swiss Francs  
  
**T/D.**..... Time Deposit  
**Tfr.**..... Transfer  
**T/L.**..... Time Loan  
**Tls.**..... Taels in China  
**T/R.**..... Trust Receipt  
**Tr. Co.**..... Trust Company  
**T. T.**..... Telegraphic Transfer  
**Tx.**..... Taxes  
  
**U. K.**..... United Kingdom  
  
**V. P.**..... Vice-President

**w. i.**..... When issued  
**W. N. P.**..... Wire non-payment  
**W. P.**..... Wire payment  
**W. P. or N. P.**..... Wire payment or non-payment  
**w. p. a.**..... With particular average  
  
**X.**..... No Protest  
**X-C.**..... Ex Coupon  
**X-d.**..... Ex-Dividend  
**X-i.**..... Ex-interest  
**X-rts.**..... Ex-rights

### Above Par

A price quoted above the face value of a security. (See Par.)

### Abrasion

The loss of weight in coins occasioned by friction, *i. e.*, ordinary wear and tear of circulation, as distinguished from loss of weight due to mutilation, debasement, clipping or sweating. Abrasion is of no importance in the case of subsidiary silver and minor coins because they are purposely short in weight, *i. e.*, overvalued, and loss of weight does not affect their value. In the case of gold coins, however, there is a limit to the reduction from the prescribed mint weight, called tolerance, beyond which their money (legal tender) value is measured by weight, and not by denomination or face value. (See Debasement, Light Coin, Light Gold, Multiluted Currency, Sweating, Tolerance.)

### Absolute Indorsement

See Indorsement.

### Absolute Title

Unqualified ownership of personal property or ownership of land in fee simple. Such a title confers on the owner and his heirs, representatives and assigns absolute right to the property in perpetuity. (See Title.)

### Absorb

When buying orders are in sufficient volume to counterbalance selling orders without a substantial change in prices, the stock or other market is said to absorb or assimilate offerings, *e. g.*, "the market encountered selling in the last hour but absorbed all offerings without appreciable price changes."

### Absorption Point

The saturation point; the point at which a market refuses to accept greater offerings



without price concessions. (See Absorb, Digested Securities.)

### Abstraction of Bank Funds

The revised statutes of the United States make the willful abstraction, embezzlement or misapplication of the funds of the Federal Reserve banks or of member banks by its officers, directors or employees a misdemeanor, punishable upon conviction by a fine of not to exceed \$5,000, or imprisonment for five years, or both. The willful making of false entries or the unauthorized issue of circulating notes, certificates of deposit, drafts, bills of exchange, bonds or mortgages is included under this title. (See Embezzlement.)

### Abstract of Title

A document usually prepared by an attorney or conveyancer to trace the history of the ownership of real property to establish the present title. The purchaser of, or lender on, real property usually has the right to require an abstract, tracing the title back to the earliest grant. The history of a title shows how it was originally acquired and all successive changes of ownership, as well as all outstanding mortgages, restrictions and incumbrances upon it, and trusts, if any, affecting it. The validity of an abstract of title may be guaranteed by a title insurance company which undertakes to indemnify the purchaser against any loss that may arise through defects in the title. (See Title Insurance, Title Insurance Company.)

### Acceptance

This term has three meanings:

(1) One of the essential conditions to a contract in order to be legally binding between the parties. Offer and acceptance to a contract are essential to its validity. (See Contract.)

(2) As applied to a time draft or bill of exchange, acceptance means to honor it, *i. e.*, to signify intention to pay it at maturity by the drawee. It is the signification by the drawee of his assent to the order of the drawer. Acceptance consists of writing the word, "Accepted," across the face of the instrument, indicating the date, bank where payable, with the signature of the drawee thereunder. After acceptance, a draft or bill has the same status in law as a promissory note. The acceptor becomes the maker and the drawer becomes the indorser. (See Draft, Negotiable Instruments Law.)

(3) Although, technically, acceptance consists of the act of accepting a time draft or bill of exchange by the drawee, the term is more commonly used to designate the accepted bill itself. Acceptances are of two classes, trade and bankers. (See Bank Acceptance, Draft, Trade Acceptance.)

### Acceptance Corporation

See Discount Corporation.

### Acceptance Credit

One means of financing import and export (also domestic) transactions is by arranging an acceptance credit with a bank. Commercial banks, including foreign banking corporations organized under the various state laws and Edge Act, are authorized to engage in the acceptance business under the regulations of the Federal Reserve Board.

In an acceptance credit a bank substitutes its credit for that of its customer. Since a bank is better known than an individual, its acceptances enjoy a readier market and lower discount rate than a trade acceptance. It is the highest-grade commercial paper.

The first step in arranging an acceptance credit is to obtain a Letter of Credit from the issuing bank. Acceptance credit is the sum which may be drawn under the letter of credit, and bills drawn under the letter of credit, when accepted by the bank, become acceptances. To illustrate the operation of an acceptance credit an example is given: Suppose concern "A" in New York sells merchandise to concern "B" in London. After the letter of credit has been granted, concern "A" will draw two drafts when the shipment to concern "B" is made. The first is upon concern "B", say at 30 or 60 days' sight, to which an ocean bill of lading and other usual shipping documents are attached. The second is drawn on and accepted by the bank from which the letter of credit was secured. Once accepted, the drawer may hold it until maturity, or if in need of cash may discount it at the accepting bank, or elsewhere. The first draft with documents attached, serving as the bank's security, are forwarded to London, addressed to a correspondent or collecting bank for collection. Funds in New York dollars are remitted by draft upon maturity of the acceptance by the London correspondent which collects the proceeds. It will be seen that neither the bank nor the customer puts up any cash unless the customer wishes to have the acceptance discounted. The bank usually

charges a commission for accepting bills from one-eighth per cent. to one-quarter per cent., depending upon the amount involved and upon the location of the drawee.

In opening an acceptance credit with a bank, the customer must fill out the following forms—application for acceptance credit, indemnity against all losses which the bank may incur and preparation of shipping documents in accordance with the letter of credit. (See Bank Acceptance, Letters of Credit, Limitations on Acceptance Credits.)

### Acceptance for Honor

A term to denote the acceptance of a draft or bill of exchange by another party when acceptance has been refused by the drawee, and protest for non-acceptance has been made. When the drawee refuses to accept a bill, or to pay it when due, any party may accept or pay it in order to save the honor of the drawer, or of an indorser, by declaring before the notary public who protested it, that he accepts (or pays) the bill *for honor*, and *for whose honor*. The notary should indicate for whose honor the instrument is accepted or paid. (See Negotiable Instruments Law, Art. 14-15.)

### Acceptance Houses

See Discount Corporation.

### Acceptance Liability

The total liability which a bank assumes in accepting bills drawn on it by its customers in the financing of export, import and domestic transactions. Although banks accept bills drawn by high-class and well-known risks, they are required to keep a record of the aggregate of the liability created by such acceptances in an account entitled, "Liability on Account of Acceptances." This account is offset by a corresponding asset entitled, "Customers' Liability on Account of Acceptances." If the customers fail to deposit funds to meet the drafts at maturity, the bank has recourse against them. (See Acceptance Credit, Acceptance Line, Letters of Credit.)

### Acceptance Liability Ledger

A ledger in which full particulars of bills accepted for each customer are entered under an account bearing his name. The particulars are usually as follows: name and address of customer (drawer), line, date, letter of credit number, acceptance number,

expiry date, amount of bill, total amount accepted or expired, and date of payment.

### Acceptance Line

The maximum limit in dollars which a bank commits itself to accept for a single customer. This limit is usually fixed by the credit officers of the bank, acting upon recommendation of the manager of the foreign department, in the case of acceptances arising out of import and export transactions. The acceptance line cannot exceed the legal limitation. (See Limitations on Acceptance Credits.)

### Acceptance Maturity Tickler

A record in which acceptances are journalized according to maturity dates in order that the amount of daily maturities can be determined at a glance. A single page is usually devoted to the maturities for each date. (See Tickler.)

### Acceptance Register

A journal in which full particulars of all bills accepted by the bank for its customers are chronologically recorded. These particulars are usually as follows: date of acceptance, bank's acceptance number, name of officer sanctioning, signature of officer signing, customer's number of bill, date, tenor, maturity, drawee, payee, for account of, list of documents received, whether original or duplicates attached, number, and date of credit.

### Acceptor

See Acceptance, Draft.

### Accommodation

To be supplied with funds when application is made to a bank. "Brokers had little difficulty in finding accommodation for their needs."

### Accommodation Indorsement

See Accommodation Paper.

### Accommodation Indorser

See Accommodation Paper.

### Accommodation Note

See Accommodation Paper.

### Accommodation Paper

A note or bill signed by a party as maker, indorser or acceptor "to accommodate" an-



other whose credit is not strong enough to enable him to borrow on his single name. The accommodation party receives no consideration, except in some cases a commission for lending his credit. The position of the accommodation party is that of a surety or guarantor. Although he does not expect to be called upon to pay the note or bill at maturity and has no obligation to the person accommodated, he is liable to any other holder for value without notice and can be compelled to meet the instrument in full. If there are prior indorsers, however, he has recourse against them.

Corporations, including banks, have no power to make or indorse accommodation paper, which is not regarded as commercial paper.

### Accommodation Party

One who signs a note or bill as maker, drawer, acceptor or indorser, without receiving value therefor, but fully liable, nevertheless, for the purpose of lending his credit to another. (See Accommodation Paper.)

### Account

A record of financial transactions usually involving debits or credits, or both; an account with a bank or broker means funds deposited as a basis of financial transactions against which checks may be drawn or orders to buy or sell securities may be made.

### Account and Risk

All transactions between broker and customer are at the risk of the customer, who is the principal. Statements confirming the execution of buying and selling orders issued by a broker are stamped, "For the account and risk of \_\_\_\_\_," the customer.

### Accountant

See Auditor, Certified Public Accountant.

### Account Day

One of the settlement days on the London Stock Exchange where settlements are made twice a month. The settlement lasts three days, and the account day, also known as pay-day, is the third and last of the settlement, on which delivery and payment are made for the transactions of the preceding half month. (See Settlement Days.)

### Account Sales

A statement submitted by a consignee, broker, or other commission merchant or

agent, showing the proceeds of the sale of goods or securities sold for the account of the owner. This statement shows full particulars, *viz.*, selling price, expenses incurred, such as freight, warehousing, insurance, etc., commission, and finally the net proceeds due to the owner.

### Accounts Current

Same as *Statement of Account* (q. v.).

### Accounts Payable

Accounts due to creditors as shown by the books of a business, but not evidenced by notes, drafts or acceptances; aggregate sum due to trade creditors; a controlling account in the general ledger to indicate the total of balances due to creditors on open accounts, as shown by the subsidiary (Accounts Payable, Purchases or Creditors) ledgers.

### Accounts Receivable

Accounts due from customers as shown by the books of a business, but not evidenced by notes, drafts or acceptances; aggregate sum due from trade debtors; a controlling account in the general ledger to indicate the total of balances due from customers on open accounts as shown by the subsidiary (Accounts Receivable, Sales or Customers) ledgers.

### Account Turnover

In analyzing statements as a basis for measuring credit risks, it is important to ascertain how fast the accounts are being turned over, *i. e.*, whether the terms of credit of the concern are being fulfilled as shown by collections. The account turnover is also known among credit men as the Sales or Receivables ratio. It is determined by dividing the annual sales by the average amount of accounts receivable standing on the books at any given time. What the account turnover should be depends upon the terms of credit offered by the concern under analysis. Where sales are fairly constant from month to month, and the terms of credit 30 days net, in an ideal case, the account turnover should be 12—1, meaning that the accounts should be turned over 12 times a year. Sales in any month should be paid in the next succeeding month, *i. e.*, the collections of any one month should equal the sales of the next preceding month. Consequently, the accounts receivable outstanding one month would be one-twelfth of the total sales for the year. If this ratio were twenty to one,



it would be evident that the terms of credit were being anticipated and advantage taken of discounts offered, arguing for a favorable condition. If collections lag behind sales, as shown by a ratio of nine to one, one or all of five conclusions might be drawn:

(1) The credit department has over-extended credit and allowed customers to over-commit themselves.

(2) A poorer class of customers, who have been unable to pay their bills promptly, has been accommodated.

(3) The credit department has been lax in enforcing collections.

(4) External conditions are becoming abnormal—that money is tight and everybody is experiencing difficulty in paying promptly.

(5) It may show a favorable condition, for example, that sales are expanding and collections have not yet caught up. (See Credit Barometrics, Statement Analysis.)

### Accrued Dividend

Regular dividends assumed to be earned, but not yet declared or due or payable. A dividend on stock does not accrue like interest on bonds. Dividends are uncertain and do not become payable until and unless earned and declared, where interest is an obligation which must be met, whether covered by earnings or not. While it may be illogical to assume dividends to accrue upon common stock, since the rate is contingent upon earnings, dividends upon preferred stock may more logically be assumed to accrue because they are more certain and the rate is fixed.

On organized stock exchanges stocks are not sold with accrued dividends; instead, prices at which stocks are quoted and traded are inclusive of any dividend which may be or has been declared. Sales of stock "with accrued dividends" occur only in special cases by agreement, and then only where the stock is guaranteed, or in preferred issues where the dividend is known to be both certain and fixed. (See Dividend, Ex-dividend.)

### Accrued Interest

Interest earned, but not yet due and payable. In the United States, unless otherwise specified, bonds are quoted and traded at a price exclusive of accrued interest. The purchase price is for the principal alone and, in addition, the buyer must pay interest at the coupon rate on the face value of the bond from the last coupon date until the date of delivery. If specified, bonds may be sold "flat," meaning that the quoted or agreed

price includes any interest which may have accrued since the last coupon date. In England, trading "flat" is the regular method. (See Flat.)

### Accrued Interest Payable

An account in the general ledger of a bank representing the interest owing to depositors upon their balances. It may also include interest on advances from a Federal Reserve bank. The amount of this item may be ascertained daily or monthly and is determined approximately by multiplying the aggregate of interest-bearing balances by the average rate.

### Accrued Interest Receivable

An account in the general ledger of a bank representing interest accrued upon loans and investments, but not yet collectible. It may be accrued upon the daily or monthly basis and determined, approximately, by multiplying the aggregate of loans and investments by the average rate.

### Accumulate

See Accumulation.

### Accumulation

The quiet purchase of securities in a dull market by private investors, speculators or financial interests when prices have declined to a point below the value represented by underlying assets, potential earning power and current interest or dividends. Such buying is undertaken not for the purpose of supporting the market but for profit in the belief that the business outlook warrants higher prices. Accumulation usually implies the purchase of securities by powerful and well-informed interests or by speculative pools prior to or during a *Campaign* (q. v.).

With reference to the speculative cycle, the period of accumulation begins at the conclusion of a bear market, when average prices are at a low level, and lasts until prices have risen high enough to induce distribution. (See Banking Support, Speculative Cycle.)

### Accumulative

Same as Cumulative. (See Cumulative Dividends, Preferred Stock.)

### Accumulative Dividends

Same as Cumulative Dividends. (See Cumulative Dividends, Preferred Stock.)

### Acid Test

An expression used among bank credit men in statement analysis work to indicate the ratio of cash and trade receivables to current liabilities. If this ratio is two for one, or better, an extremely favorable position is disclosed.

### Acknowledgment

A declaration, admission or certificate taken before a notary or other attesting officer, stating that the maker of an instrument or document has appeared before him and subscribed it as a voluntary act without duress.

### Acquittance

A written document which releases a person from paying a debt or performing a contractual or other obligation.

### Action

The French term for share of stock.

### Active Account

*Bank*—An account in which deposits and withdrawals are frequently made. The expense of handling an account varies directly with its activity, because of the cost of stationery, clerical aid and the use of the bank's space and equipment. An active account should maintain larger daily balances than an inactive one. (See Analysis Department, Bank Cost-Accounting.)

*Broker*—An account showing frequent purchases and sales. Such an account usually is given preferential treatment in the matter of interest-carrying charges.

### Active Assets

Assets which are continuously employed in the business; productive assets; the opposite of dead assets. (See Assets.)

### Active Capital

Capital continuously employed in profit-making pursuits. (See Capital.)

### Active Market

One in which the volume of sales is large and there is a rush of orders to be executed. On the New York Stock Exchange, when 1,000,000 shares a day are sold, the market is regarded as active; with from 1,500,000 to 2,000,000 shares per day, very active; with less than 500,000, inactive. In January, 1922, the largest full day's trading in stocks

was 1,139,175 shares, and the smallest full day's trading, 405,015 shares. For the same month, the largest day's trading in bonds was \$28,990,850, par value, and the smallest day's trading was \$13,605,200. The greatest volume of sales yet recorded on the New York Stock Exchange occurred on May 9, 1901, and was 3,336,695 shares. (See New York Stock Exchange.)

### Active Securities

Securities in which daily sales occur and for which daily quotations are available. Such securities are said to enjoy a "good market," and consequently possess high marketability and hypothecary (loan) value.

### Act of Bankruptcy

See Bankruptcy.

### Actual Reserve Position

See Clearing House Statement.

### Actuary

An insurance expert in mathematics and statistics. He computes risks based upon mortality tables and the laws of probabilities and averages, determines annuity rates, premiums upon policies, reserves against death claims, dividends upon participating policies, and other statistical data necessary to determine cash or loan values, amounts of extended and paid-up insurance, etc. (See Insurance.)

### Adjustable Currency

Another term for *Elastic Currency* (q. v.).

### Adjusted Reserve

See Naked Reserve.

### Adjustment Bonds

Bonds usually growing out of reorganizations in which an attempt has been made to scale down the funded debt and to reduce fixed charges. Most adjustment bonds are in reality mortgage income bonds (although sometimes unsecured), upon which interest is payable only if earned. Failure to pay interest upon such bonds does not constitute cause for foreclosure. Interest upon these bonds is a claim upon earnings only after payment of interest on all prior obligations. Thus, they are a claim on earnings prior to stock issues only. Sometimes adjustment bonds arise out of an adjustment of several existing issues into one class to provide for



a uniform rate, but usually adjustment bonds are merely another name for income bonds.

### Adjustment Mortgage

See Adjustment Bonds.

### Adjustment Mortgage Bonds

See Adjustment Bonds.

### Adjustments

The correction of errors in statements of account submitted by banks to their customers due to misposting, omission of deposit, unauthorized payment of check, failure to credit interest, overcharge for commission, etc. Adjustments are made by the bookkeeping or auditing department. (See Auditing Department.)

### Administration, Letters of

See Letters of Administration.

### Administrator

A person appointed by the probate (or surrogate) court, or by the registrar of wills, to settle the estate of an intestate decedent (one who has died without leaving a will). His authority to act consists of Letters of Administration, granted by the court. He qualifies by giving bond, and follows much the same procedure as an executor. He collects the assets, advertises for claims and pays them off, and distributes the personal property among the rightful heirs in accordance with the inheritance laws of the state.

Administrators are of the following classes: (1) general administrator, appointed to act where there is no will; (2) administrator *cum testamento annexo* (with the will annexed), who acts when a decedent leaves a will without naming an executor, or when the executor has died, has become incapacitated, or refuses to act; (3) administrator *de bonis non*, who acts when the first administrator has died or has been discharged before the estate has been fully administered; (4) administrator *pendente lite*, who is appointed to take charge of an estate pending the outcome of litigation over a contested will; (5) administrator *durante minoritate*, who is appointed to act during the minority of an executor; (6) administrator *ad litem*, who acts wherever the deceased has been or his estate is, a party to a suit, but only for the purpose of such action. (See Executor, Letters of Administration.)

### Administratrix

The feminine form of *Administrator* (q. v.).

### Ad Valorem

Latin for *according to value*. This term is used in connection with the tariff on imports. There are two principles of levying customs duties; based on number or by weight, or declared value. The first is called a specific duty; the second, an ad valorem.

### Advance

This term has three meanings:

- (1) In general, the same significance as the word loan.
- (2) A deposit paid on account, or before a contract is completed, or legally due.
- (3) An expression to indicate a rise in prices.

### Advice

A form letter sent by a bank to a customer or bank in acknowledgment of the receipt or credit of money, checks, drafts, securities or other documents, or that it has executed the instructions of its customer, such as to make a telegraphic transfer, a payment of money, purchase of securities or to issue a letter of credit. On the other hand, a bank receives advices from correspondent banks, etc. These are known as incoming or returning advices.

### Advice Book

A book or file in which duplicate outgoing and incoming advices are kept.

### Advice Department

The department of a bank which handles advices, receipts or acknowledgments of deposits, securities, etc., received from customers, and which receives and checks incoming and return advices. (See Advice.)

### Advise Fate Item

See Wire Fate Item.

### Affidavit

Latin for "has pledged his faith." A written statement subscribed and sworn to before a notary public, commissioner, consul or other officer empowered to administer oaths. The affidavit must contain the affiant's (deponent's) name and address and signature of the attesting officer.

**Affiliation**

A concern whose management is closely connected with that of another. An affiliation may be secured with another company by a partial or controlling stock interest or by means of an interlocking directorate. An affiliated company is closely allied to a subsidiary company, except that in the latter control is more complete. (See *Subsidiary Company*.)

**After Date**

An expression used in notes, drafts and bills of exchange. "Ninety days after date pay to the order of \_\_\_\_\_," the date referred to being the date the instrument is drawn.

**After Sight**

After acceptance, *e. g.*, a draft payable 30 days after sight is payable 30 days after presentation and acceptance. This term should not be confused with *At Sight*.

**Agent**

A person who represents or acts for another called the principal. It is a legal relationship which permits the agent to transact business for the principal with third parties. Agents are of three kinds: special, which have authority to do specific acts; general, which have general authority with stipulated limitations; and universal, which have unlimited authority. The relationship between principal and agent is well defined by law and should be thoroughly understood by those who enter into it. The chief point which an agent must bear in mind is that while acting for his principal he must sign himself as agent so as to avoid personal liability. (See *Foreign Agencies*.)

**Agent de Change**

The title given to a member of the Paris, and other bourses, of continental Europe.

**Agio**

The premium which the metallic or other currency of a country may command over legal tender paper money which is its face equivalent. This term is restricted in its use to continental Europe.

**Agricultural Credit**

Credit extended to farmers for the purpose of facilitating farm operations, *i. e.*,

planting and harvesting of crops; purchase of implements and tools; breeding, raising, fattening or marketing of live stock and dairying, as differentiated from credit extended to purchase farm land. The latter is called farm mortgage credit. (See *Agricultural Credit*, *Agricultural Paper*, *Farm Credits Act*, *Farm Mortgage Company*, *Farm Mortgages*, *Federal Farm Loan System*.)

**Agricultural Credit Act of 1923**

See *Farm Credits Act*.

**Agricultural Credit Corporations**

See *Farm Credits Act*.

**Agricultural Loans**

See *Agricultural Credit*, *Agricultural Paper*, *Amortization Loans*, *Farm Credits Act*, *Federal Farm Loan System*.

**Agricultural Paper**

Notes and acceptances arising out of agricultural transactions as distinguished from purely commercial or industrial transactions. If otherwise eligible, agricultural paper having a maturity of six months is eligible for rediscount.

As defined by the Federal Reserve Board (Regulation A, a vi, Series of 1920) six months' agricultural paper is "a note, draft, bill of exchange or trade acceptance drawn or issued for agricultural purposes, or based on live stock; that is, a note, draft, bill of exchange or trade acceptance the proceeds of which have been used, or are to be used, for agricultural purposes, including the breeding, raising, fattening or marketing of live stock, and which has a maturity at the time of discount of not more than six months, exclusive of days of grace." (See *Cattle Loans*.)

**Aldrich-Vreeland Act**

See *National Monetary Commission*.

**Alfonso**

See *Foreign Moneys—Spain*.

**Allonge**

A slip of paper attached to a bill of exchange to provide for additional indorsements because the original bill does not afford sufficient space.



### Allotment

The share or portion of an issue of securities granted or assigned by an investment house or syndicate to the subscriber. In an underwriting syndicate the allotment would be made to syndicate members (participants). An allotment may be less than the amount subscribed, since offerings of securities are made "subject to allotment."

### Allotment Notice

A letter issued to a subscriber or applicant for bonds or stocks, announcing the quantity allotted or assigned to him, the sum payable and when, or if payable in installments, the several payment dates.

### Allottee

A person, investment house or syndicate member to which securities are allotted in response to a subscription therefor.

### Alloy

A base metal mixed with gold or silver to impart greater durability to coins made therefrom, because pure gold and silver are too soft for currency purposes. The gold and silver coins of the United States are 9/10 fine, *i. e.*, they contain nine parts pure metal and one part alloy. The alloy used in gold and silver coins consists of copper alone. Five cent pieces are 75 per cent. copper and 25 per cent. nickel. One cent pieces are 95 per cent. copper, 4 per cent. tin and 1 per cent. zinc.

English gold coins are 11/12 fine and because purer, are subject to greater abrasion than those of the United States. (See Abrasion, Coinage.)

### Alteration

Any material change involving an erasure and re-writing, whether in a check, or other negotiable instrument, or bookkeeping entry. An alteration may consist of a change in amount, date, time and place of payment, medium or currency, or in the name of the payee or maker.

Any material alteration in a check must be initialed or signed by the drawer. Due to the greater ease of forging initials, it is recommended that alterations be confirmed by full signatures. In order to save future controversy, it is still better to draw a fresh instrument than to issue one showing evidences of carelessness or inaccuracy.

The fraudulent alteration of checks, particularly raising the amount, is a source of

great annoyance and loss. Numerous frauds have been perpetrated upon banks in this way, and a bank is responsible to its customers for paying an altered check. Just as a bank is presumed to know the signatures of its customers, so it is required to use due diligence in protecting them against losses through the fraudulent alteration of the amount. Paying tellers and check desk clerks should, therefore, scrutinize checks for possible alterations before they are paid or charged to the drawer's account.

Various means have been invented to prevent fraudulent alteration of checks. These are discussed under *Check Protecting Devices* (q. v.).

Where alterations become necessary in the books of account in a bank, they should be made neatly by ruling through the wrong entry and writing the correct one above or below it. In this way the evidence is not destroyed and the books are left in a neater condition than if figures are written over, erased, scratched out or inked over. (See Forgery, Forged Instruments, Negotiable Instruments Law, Art. 9, § 205, 206.)

### Alternate Deposits

Deposits made in the names of two persons connected by the word "or," *e. g.*, John or Mary Doe. Joint deposits are similar except that the names of the two persons are connected by the word "and," *e. g.*, John and Mary Doe.

Either alternate or joint deposits may be interpreted as establishing (1) a merger of accounts of husband and wife, (2) a gift, (3) a trust, or (4) a joint tenancy. In the case of death of one of the parties, the whole belongs to the survivor.

The purpose of these deposits is to secure convenience in the withdrawal of funds, or to make the balance an effective gift to the survivor immediately after death, thus avoiding administratorship.

### Alternative Fiscal Agent

See Fiscal Agent.

### Alternative Payee

When a check or bill is payable to either of two persons, each is an alternative payee.

### Amalgamation

See Merger, Consolidation of Banks.

### American Acceptance Council

An organization located in New York City, formerly known as the American

Trade-Acceptance Council, the purpose of which is to carry on an educational campaign among producers, manufacturers, jobbers, and retail merchants, on the use and advantages of trade and bank acceptances. It is also designed to further the development of an open market for this class of paper, and to aid in the standardization of forms and rules in connection with the issue of letters of credit, and documents arising thereunder as a result of domestic and international trade.

### American Bankers Association

The most important association of banks and bankers in the United States, founded at its first convention, July 20-22, 1875, at Saratoga Springs, N. Y. It is a voluntary association, the purpose of which is stated in the Declaration of its Constitution as follows:

"To promote the general welfare and usefulness of banks and financial institutions and to secure uniformity of government; to obtain practical benefits to be derived from personal acquaintance and from the discussion of subjects of importance to the banking and commercial interests of the country, and especially in order to obtain the proper consideration of questions regarding the commercial and financial usages, customs and laws that affect the banking interests of the entire country, and for protection against crime."

All bank organizations are eligible for membership upon payment of the annual dues, based upon capital and surplus. The supreme authority of the association is vested in the general convention which assembles once a year, individual delegates representing the bank members. The administration of affairs between conventions is vested in the officers and the executive council, both of which are subject to the control of the general convention.

The association is divided into four divisions based on different business classes of membership, three miscellaneous sections and two departments. The divisions are: trust company, savings bank, national bank and state bank. The sections are: the Clearing House, *American Institute of Banking* (q. v.) and State Secretaries. The departments are: legal and protective. Each division and the American Institute of Banking has its own officers, committees and set of by-laws. The by-laws relate primarily to the administration of the central body and the work of the permanent council committees,

which are as follows: Finance, Federal Legislation, State Legislation, Protective, State Taxation, Insurance and Membership.

The official publication of the association, issued monthly, is styled *The Journal of the American Bankers Association*. The address of the official headquarters of this association is 110 East Forty-second street, New York City.

### American Institute of Banking

An organization founded in 1900 as a section of the *American Bankers Association* (q. v.). It was originally known as The American Institute of Bank Clerks. Its object is the education of bankers in banking and the establishment and maintenance of a recognized standard of education by means of official examinations and issuance of graduation certificates. The work of the institute spreads over the entire United States through the organization of chapters in the larger cities. Where city chapters\* are not practicable, state chapters are organized for pursuing courses of study, either in classes or by correspondence. For remoter places, courses of study are pursued by correspondence. Conventions of the institution are held annually. Headquarters

\*The location of the chapters on the date of this publication was as follows: Akron, O.; Albany, N. Y.; Ashville, N. C.; Atlanta, Ga.; Baltimore, Md.; Bartlesville, Okla.; Beloit, Wis.; Birmingham, Ala.; Boston, Mass.; Bridgeport, Conn.; Buffalo, N. Y.; Cedar Rapids, Ia.; Charleston, S. C.; Chattanooga, Tenn.; Chicago, Ill.; Cincinnati, O.; Cleveland, O.; Columbia, S. C.; Columbus, O.; Dallas, Tex.; Danville, Va.; Dayton, O.; Denver, Colo.; Des Moines, Ia.; Detroit, Mich.; Duluth, Minn.; Eau Claire, Wis.; Bound Brook, N. J.; Erie, Pa.; Flint, Mich.; Fresno, Calif.; Gary, Ind.; Great Falls, Mont.; Harrisburg, Pa.; Hartford, Conn.; Helena, Ark.; Huntington, W. Va.; Indianapolis, Ind.; Ithaca, N. Y.; Jacksonville, Fla.; Janesville, Wis.; Joplin, Mo.; Kansas City, Mo.; Knoxville, Tenn.; Lancaster, Pa.; Lawrence, Mass.; Little Rock, Ark.; Los Angeles, Calif.; Louisville, Ky.; Lynchburg, Va.; Macon, Ga.; Memphis, Tenn.; Milwaukee, Wis.; Minneapolis, Minn.; Nashville, Tenn.; Newark, O.; New Bedford, Mass.; New Britain, Conn.; New Haven, Conn.; New Orleans, La.; New York, N. Y.; Norfolk, Va.; Omaha, Neb.; Passaic, N. J.; Philadelphia, Pa.; Phoenix, Ariz.; Pittsburgh, Pa.; Portland, Ore.; Providence, R. I.; Racine, Wis.; Redlands, Calif.; Richmond, Va.; Rochester, N. Y.; Sacramento, Calif.; St. Louis, Mo.; St. Paul, Minn.; Salt Lake City, Utah; San Antonio, Tex.; San Diego, Calif.; San Francisco, Calif.; Santa Barbara, Calif.; Scranton, Pa.; Seattle, Wash.; Sioux City, Ia.; Spokane, Wash.; Stamford, Conn.; Stockton, Calif.; Syracuse, N. Y.; Tacoma, Wash.; Toledo, O.; Tucson, Ariz.; Tulsa, Okla.; Utica, N. Y.; Washington, D. C.; Waterloo, Ia.; Watertown, N. Y.; Wheeling, W. Va.; Winona, Minn.; York, Pa.; Newark, N. J.; Fox River Valley Chapter, Appleton, Wis.; Michigan State Chapter, Detroit, Mich.; Illinois State Chapter, Atkinson, Ill.; Minnesota State Chapter, Winona, Minn.; Oklahoma State Chapter, Oklahoma City, Okla.; Texas State Chapter, Austin, Tex.; Wisconsin State Chapter, Wausau, Wis.

are located at 110 East Forty-second street, New York City. The organ of the American Institute of Banking is styled *Bulletin of the American Institute of Banking*, and is published quarterly.

**American Parity**

A foreign exchange term to indicate the equivalent in United States money of the foreign price of a security traded in internationally.

**Amortisement**

Same as *Amortization* (q. v.).

Consequently, a part of the cash interest paid periodically on the bond should not be regarded as income, but as an amount to be applied to the reduction of the principal of the investment. This is accomplished by a charge at each bond interest date to the cash interest account and a corresponding credit to the bond or premium on bonds account.

To show briefly the mathematical history of a bond bought at a premium and carried on an investment basis, suppose a 6 per cent. four-year semi-annual bond, issued March 1, 1915, was bought to yield 4½ per cent. The following table shows what portion of the cash interest is to be regarded as net

Date	Cash Interest 6%	Net Income 4½%	In Reduction of Principal of the Investment, or Amortization	Book Value	Par
1915 Mar. 1	.....	.....	(cost)	1,054.40	1,000.00
Sept. 1	30.00	23.70	6.30	1,048.10	.....
1916 Mar. 1	30.00	23.60	6.40	1,041.70	.....
Sept. 1	30.00	23.40	6.60	1,035.10	.....
1917 Mar. 1	30.00	23.30	6.70	1,028.40	.....
Sept. 1	30.00	23.10	6.90	1,021.50	.....
1918 Mar. 1	30.00	23.00	7.00	1,014.50	.....
Sept. 1	30.00	22.80	7.20	1,007.30	.....
1919 Mar. 1	30.00	22.70	7.30	1,000.00	.....
	240.00	185.60	54.40		

MATHEMATICS OF AMORTIZATION

**Amortization**

This term has two meanings:

(1) Literally, "killing off," or wiping out, a term usually applied to the payment of long-term debt on the installment or sinking-fund plan; the gradual reduction of a debt by equal periodic payments sufficient to pay current interest and to extinguish the principal at maturity; the reduction of a debt by the application of annual or semi-annual partial payments to the discharge of the principal. This method of debt reduction usually applies to long-term debts, especially farm mortgage loans of the Federal land banks and joint-stock land banks (a method borrowed from European farm mortgage finance), and corporation bonds of the sinking-fund type. (See *Amortization Loans*.)

(2) The process of reducing or writing off a bond bought at a premium in order to bring its investment or basis value into coincidence with par value on the maturity date. The premium paid for a bond at the time of purchase represents a part of the investment which will not be returned at maturity.

income or yield and how much in reduction of the principal of the investment. Reference to the bond table shows that such a bond would cost \$1,054.40.

The yield is determined by multiplying the book value, which in the first instance is the purchase price, by the pre-determined yield or basis rate, 4½ per cent. The net income for September 1, 1915, is determined by multiplying \$1,054.40 by 4½ per cent. This is \$23.70. The difference between \$23.70 (yield) and \$30.00 (cash interest) is \$6.30, which is the first amortization installment to be applied in the reduction of the principal of the investment. The new book value, or investment value for September 1st, is the difference between \$1,054.40 and \$6.30, or \$1,048.10. Since the investment value is constantly being reduced, the net income for each subsequent interest period declines. It will be seen that the total of the amortization is equal to the premium and that provision has been made to completely extinguish it.

The entry in the books for the first interest period should be as follows:



Dr. Cash .....	\$30.00
Total .....	\$30.00
Cr. Interest Income .....	\$23.70
Bond .....	6.30
Total .....	\$30.00

Bonds bought at a discount are treated exactly the same way, except that the prin-

forty years. Payments are made annually or semi-annually so as to liquidate the entire indebtedness in the period of the loan. To illustrate the mathematics of an amortization loan, the following table is given. The loan is for \$1,000 at 6 per cent. interest, repayable in five years by means of semi-annual installments of \$117.24, which includes interest and part of the principal:

Date	Cash Interest 3%	Net Income 4½%	To Apply to Increase Principal of the Investment, or Accumulation	Book Value	Par
1915 Mar. 1 .....			(cost)	945.60	1,000.00
Sept. 1 .....	15.00	21.30	6.30	951.90	.....
1916 Mar. 1 .....	15.00	21.40	6.40	958.30	.....
Sept. 1 .....	15.00	21.60	6.60	964.90	.....
1917 Mar. 1 .....	15.00	21.70	6.70	971.60	.....
Sept. 1 .....	15.00	21.90	6.90	978.50	.....
1918 Mar. 1 .....	15.00	22.00	7.00	985.50	.....
Sept. 1 .....	15.00	22.20	7.20	992.70	.....
1919 Mar. 1 .....	15.00	22.30	7.30	1,000.00	.....
	120.00	174.40	54.40		

MATHEMATICS OF ACCUMULATION

incipal of the investment is constantly being added to instead of being reduced. The amount added to the investment at each interest period is called accumulation. The above table is given to illustrate the mathematical history of a 3 per cent., four-year semi-annual bond issued March 1, 1915, and purchased to yield 4½ per cent. at the price of \$945.60:

Payment No.	Instalment	Interest	Applied on principal	Principal still unpaid
1.....	\$117.24	\$30.00	\$87.24	\$912.76
2.....	117.24	27.38	89.86	822.90
3.....	117.24	24.69	92.55	730.35
4.....	117.24	21.91	95.33	635.02
5.....	117.24	19.05	98.19	536.83
6.....	117.24	16.10	101.14	435.69
7.....	117.24	13.07	104.17	331.52
8.....	117.24	9.95	107.29	224.23
9.....	117.24	6.73	110.51	113.72
10.....	117.13	3.41	113.72	.....
	\$1,172.29	\$172.29	\$1,000.00	.....

Amortization Loans

A term which applies to long-term loans, especially farm mortgage loans, as allowed under the Federal Farm Loan Act, in which the principal is extinguished or amortized during the period for which the loan is made. Amortization loans are the only kind permitted under the Federal Farm Loan Act. Before the enactment of this law, it was customary for farmers to borrow on farm mortgages as security, giving notes of from three to five years' maturity, subject to renewal. Each renewal necessitated the payment of commissions and agents' fees, and when made in times of financial stringency, farmers sometimes lost their farms because they could not get their loans renewed.

Under the Federal Farm Loan Act, farmers may take out loans for as short a period as five years and for as long a period as

"The Federal Farm Loan Board has encouraged the Federal land Banks in establishing a standard 33-year loan. It has done this because this sort of loan is one which simplifies the bookkeeping, makes the matter of payments and amortization plain to everybody, and gives every borrower the chance to turn himself so far as time is concerned. It spreads the privilege of payment over a generation in time, and meets every want of almost every borrower. Two amortization tables have been prepared on this basis of 33 years, covering both semi-annual and annual payments."\* These are exhibited below.

\* Federal Farm Loan Bureau, Circular No. 7, 1921.

TABLE 1

(A loan of \$100 at 6 per cent. interest repayable in 33 years by means of semi-annual instalments of \$3.50, which includes interest and part of principal.)

Payment No.	Instalment	Interest	Applied on principal	Principal still unpaid
1.....	\$3.50	\$3.00	\$0.50	\$99.50
2.....	3.50	2.98	.52	98.98
3.....	3.50	2.97	.53	98.45
4.....	3.50	2.95	.55	97.90
5.....	3.50	2.94	.56	97.34
6.....	3.50	2.92	.58	96.76
7.....	3.50	2.90	.60	96.16
8.....	3.50	2.89	.61	95.55
9.....	3.50	2.87	.63	94.92
10.....	3.50	2.85	.65	94.27
11.....	3.50	2.83	.67	93.60
12.....	3.50	2.81	.69	92.91
13.....	3.50	2.79	.71	92.20
14.....	3.50	2.77	.73	91.47
15.....	3.50	2.74	.76	90.71
16.....	3.50	2.72	.78	89.93
17.....	3.50	2.70	.80	89.13
18.....	3.50	2.67	.83	88.30
19.....	3.50	2.65	.85	87.45
20.....	3.50	2.62	.88	86.57
21.....	3.50	2.60	.90	85.67
22.....	3.50	2.57	.93	84.74
23.....	3.50	2.54	.96	83.78
24.....	3.50	2.51	.99	82.79
25.....	3.50	2.48	1.02	81.77
26.....	3.50	2.45	1.05	80.72
27.....	3.50	2.42	1.08	79.64
28.....	3.50	2.39	1.11	78.53
29.....	3.50	2.36	1.14	77.39
30.....	3.50	2.32	1.18	76.21
31.....	3.50	2.29	1.21	75.00
32.....	3.50	2.25	1.25	73.75
33.....	3.50	2.21	1.29	72.46
34.....	3.50	2.17	1.33	71.13
35.....	3.50	2.13	1.37	69.76
36.....	3.50	2.09	1.41	68.35
37.....	3.50	2.05	1.45	66.90
38.....	3.50	2.01	1.49	65.41
39.....	3.50	1.96	1.54	63.87
40.....	3.50	1.92	1.58	62.29
41.....	3.50	1.87	1.63	60.66
42.....	3.50	1.82	1.68	58.98
43.....	3.50	1.77	1.73	57.25
44.....	3.50	1.72	1.78	55.47
45.....	3.50	1.66	1.84	53.63
46.....	3.50	1.61	1.89	51.74
47.....	3.50	1.55	1.95	49.79
48.....	3.50	1.49	2.01	47.78
49.....	3.50	1.43	2.07	45.71
50.....	3.50	1.37	2.13	43.58
51.....	3.50	1.31	2.19	41.39
52.....	3.50	1.24	2.26	39.13
53.....	3.50	1.17	2.33	36.80

Payment No.	Instalment	Interest	Applied on principal	Principal still unpaid	
54.....	3.50	1.10	2.40	34.40	
55.....	3.50	1.03	2.47	31.93	
56.....	3.50	.96	2.54	29.39	
57.....	3.50	.88	2.62	26.77	
58.....	3.50	.80	2.70	24.07	
59.....	3.50	.72	2.78	21.29	
60.....	3.50	.64	2.86	18.43	
61.....	3.50	.55	2.95	15.48	
62.....	3.50	.47	3.03	12.45	
63.....	3.50	.37	3.13	9.32	
64.....	3.50	.28	3.22	6.10	
65.....	3.50	.18	3.32	2.78	
66.....	2.87	.09	2.78	.....	
		\$230.37	\$130.37	\$100.00	.....

TABLE 2

(A loan of \$100 at 6 per cent. interest repayable in 33 years by means of annual instalments of \$7, which includes interest and part of the principal.)

Payment No.	Instalment	Interest	Applied on principal	Principal still unpaid	
1.....	\$7.00	\$6.00	\$1.00	\$99.00	
2.....	7.00	5.94	1.06	97.94	
3.....	7.00	5.88	1.12	96.82	
4.....	7.00	5.81	1.19	95.63	
5.....	7.00	5.74	1.26	94.37	
6.....	7.00	5.66	1.34	93.03	
7.....	7.00	5.58	1.42	91.61	
8.....	7.00	5.50	1.50	90.11	
9.....	7.00	5.41	1.59	88.52	
10.....	7.00	5.31	1.69	86.83	
11.....	7.00	5.21	1.79	85.04	
12.....	7.00	5.10	1.90	83.14	
13.....	7.00	4.99	2.01	81.13	
14.....	7.00	4.87	2.13	79.00	
15.....	7.00	4.74	2.26	76.74	
16.....	7.00	4.60	2.40	74.34	
17.....	7.00	4.46	2.54	71.80	
18.....	7.00	4.31	2.69	69.11	
19.....	7.00	4.15	2.85	66.26	
20.....	7.00	3.97	3.03	63.23	
21.....	7.00	3.79	3.21	60.02	
22.....	7.00	3.60	3.40	56.62	
23.....	7.00	3.40	3.60	53.02	
24.....	7.00	3.18	3.82	49.20	
25.....	7.00	2.95	4.05	45.15	
26.....	7.00	2.71	4.29	40.86	
27.....	7.00	2.45	4.55	36.31	
28.....	7.00	2.18	4.82	31.49	
29.....	7.00	1.89	5.11	26.38	
30.....	7.00	1.58	5.42	20.96	
31.....	7.00	1.26	5.74	15.22	
32.....	7.00	.91	6.09	9.13	
33.....	9.68	.55	9.13	.....	
		\$233.68	\$133.68	\$100.00	.....

The borrower of any sum of money may find what his semi-annual payments would be under this table by multiplying the payments in the table by the number of thousands of dollars which he has borrowed or expects to borrow, *e. g.*, a loan of \$3,000 would call for a payment of about \$351.72 every six months.

### Amortized Loans

Same as *Amortization Loans* (q. v.).

### Analysis Department

The department of a bank or investment or brokerage house engaged in preparing operating statistics. The work of the department consists largely in determining the revenue derived from and costs of carrying given accounts with a view of determining the net profit or loss over a period of time. The analysis of a bank account consists in determining the average, maximum and minimum balance carried and available for lending or investing, number of checks written, average amount of checks in transit and direct and indirect charges thereagainst, and approximate profit or loss resulting from carrying the account. (See *Bank Cost-Accounting*.)

### Analysis of Accounts

See *Analysis Department*, *Bank Cost-Accounting*.

### Analysis of Securities

See *Bond*, *Industrial Bonds*, *Industrial Stocks*, *Investment*, *Foreign Government Bonds*, *Municipal Bonds*, *Public Utility Bonds*, *Railroad Bonds*, *State Bonds*, *United States Bonds*.

### And Interest

A term used in bond quotations and sales to denote that accrued interest is to be added to the price, *i. e.*, the price quoted is exclusive of interest. (See *Accrued Interest*.)

### Anna

See *Foreign Moneys—India*.

### Annual Return

See *Return*.

### Annual Yield

See *Yield*.

### Annuity

Periodic fixed money payments, usually annually, semi-annually or quarterly, at the

beginning or close of the period, received from an insurance company in consideration of a gross sum or as a gift from a donor. When the payment is continued for a certain period, *e. g.*, 25 years, it is called a certain annuity; when continued for an uncertain period, a contingent annuity; when continued during a person's lifetime, a life annuity; when continued perpetually, a perpetual annuity; when it does not take effect until after a certain time or event, a deferred annuity; when it ceases at a certain time or event, a terminable annuity.

Annuities are purchasable from insurance companies and may be paid for in one lump payment or in instalments. They furnish an excellent means of purchasing an income for a definite period or for life.

The tables below show (1) cost of a life annuity of \$100 at ages from 3 to 85 for either sex, and (2) the annual annuity purchasable for \$1,000 at ages from 3 to 85 for either sex. This table is used by the New York Life, Equitable Life and Mutual Benefit Life Insurance Companies, and is based upon interest compounded at 3½ per cent.

### Antecedents

A term used among credit men in making a credit investigation. The business history of the subject of inquiry is regarded as important in order to show the concern's rate of progress or retrogression, and it is particularly desirable to know the history of the concern's personnel and their record for responsible management. The credit investigator should determine whether the business has been under the control of the present managers for a long or short period and whether it has frequently "changed hands." In case the present personnel is new, it is desirable to ascertain what their previous or antecedent business connections were and with what success their operations were attended.

### Antedate

A check or other instrument is antedated when given a date prior to the current date; thus, if today is September 1, 1923, July 1, 1921, antedates today.

### Anthracite Roads

The railroad companies, a large part of the tonnage of which consists in carrying hard coal, such as the Delaware, Lackawanna & Western; Lehigh Valley; Central of New Jersey; Philadelphia & Reading;



**LIFE ANNUITY RATES—Males.**  
**NON-PARTICIPATING.**

Age last Birthday.	PRICE OF \$100 ANNUITY.			ANNUITY PURCHASED BY \$1,000.			Age last Birthday.
	\$100 Annually.	\$50 Semi-Annually.	\$25 Quarterly.	Annual Paym't.	Semi-Annual Paym't.	Quarterly Paym't.	
	3	\$9,629.50	\$2,656.60	\$2,670.00	\$38.03	\$18.82	
4	2,617.80	2,644.80	2,658.30	38.20	18.90	9.40	4
5	2,604.50	2,631.50	2,645.00	38.39	19.00	9.45	5
6	2,589.40	2,616.40	2,629.90	38.61	19.11	9.50	6
7	2,573.00	2,600.00	2,613.50	38.86	19.23	9.56	7
8	2,554.80	2,581.80	2,595.30	39.14	19.36	9.63	8
9	2,535.10	2,562.10	2,575.60	39.44	19.51	9.70	9
10	2,515.10	2,542.10	2,555.60	39.75	19.66	9.78	10
11	2,500.40	2,527.40	2,540.90	39.99	19.78	9.83	11
12	2,485.20	2,512.20	2,525.70	40.23	19.90	9.89	12
13	2,469.50	2,496.50	2,510.00	40.49	20.02	9.96	13
14	2,453.50	2,480.50	2,494.00	40.75	20.15	10.02	14
15	2,436.60	2,463.60	2,477.10	41.04	20.29	10.09	15
16	2,419.40	2,446.40	2,459.90	41.33	20.43	10.16	16
17	2,401.20	2,428.20	2,441.70	41.64	20.59	10.23	17
18	2,382.80	2,409.80	2,423.30	41.96	20.74	10.31	18
19	2,364.20	2,391.20	2,404.70	42.29	20.91	10.39	19
20	2,345.40	2,372.40	2,385.90	42.63	21.07	10.47	20
21	2,326.20	2,353.20	2,366.70	42.98	21.24	10.56	21
22	2,306.90	2,333.60	2,347.10	43.35	21.42	10.65	22
23	2,286.40	2,313.40	2,326.90	43.73	21.61	10.74	23
24	2,265.80	2,292.80	2,306.30	44.13	21.80	10.83	24
25	2,244.40	2,271.40	2,284.90	44.55	22.01	10.94	25
26	2,222.50	2,249.50	2,263.00	44.99	22.22	11.04	26
27	2,200.00	2,227.00	2,240.50	45.45	22.45	11.15	27
28	2,176.90	2,203.90	2,217.40	45.93	22.68	11.27	28
29	2,153.30	2,180.30	2,193.80	46.44	22.93	11.39	29
30	2,129.00	2,156.00	2,169.50	46.97	23.19	11.52	30
31	2,104.00	2,131.00	2,144.50	47.52	23.46	11.65	31
32	2,078.50	2,105.50	2,119.00	48.11	23.74	11.79	32
33	2,052.40	2,079.40	2,092.90	48.72	24.04	11.94	33
34	2,025.70	2,052.70	2,066.20	49.36	24.35	12.09	34
35	1,998.30	2,025.30	2,038.80	50.04	24.68	12.26	35
36	1,970.50	1,997.50	2,011.00	50.74	25.03	12.43	36
37	1,942.00	1,969.00	1,982.50	51.49	25.39	12.61	37
38	1,912.70	1,939.70	1,953.20	52.28	25.77	12.79	38
39	1,883.00	1,910.00	1,923.50	53.10	26.17	12.99	39
40	1,852.70	1,879.70	1,893.20	53.97	26.59	13.20	40
41	1,821.80	1,848.80	1,862.30	54.89	27.04	13.42	41
42	1,790.40	1,817.40	1,830.90	55.85	27.51	13.65	42
43	1,758.40	1,785.40	1,798.90	56.96	28.00	13.89	43

**LIFE ANNUITY RATES—Males.**  
**NON-PARTICIPATING.**

Age last Birthday.	PRICE OF \$100 ANNUITY.			ANNUITY PURCHASED BY \$1,000.			Age last Birthday.
	\$100 Annually.	\$50 Semi-Annually.	\$25 Quarterly.	Annual Paym't.	Semi-Annual Paym't.	Quarterly Paym't.	
	44	\$1,725.90	\$1,752.90	\$1,766.40	\$57.94	\$28.53	
45	1,692.80	1,719.80	1,733.30	59.07	29.07	14.42	45
46	1,659.40	1,686.40	1,699.90	60.26	29.64	14.70	46
47	1,625.40	1,652.40	1,665.90	61.52	30.25	15.00	47
48	1,591.00	1,618.00	1,631.50	62.85	30.90	15.32	48
49	1,556.20	1,583.20	1,596.70	64.25	31.58	15.65	49
50	1,521.60	1,548.60	1,562.10	65.72	32.29	16.00	50
51	1,486.50	1,513.50	1,527.00	67.27	33.03	16.37	51
52	1,451.20	1,478.20	1,491.70	68.90	33.82	16.75	52
53	1,415.00	1,442.00	1,455.50	70.67	34.67	17.17	53
54	1,378.70	1,405.70	1,419.20	72.53	35.56	17.61	54
55	1,342.00	1,369.00	1,382.50	74.51	36.52	18.08	55
56	1,305.30	1,332.30	1,345.80	76.61	37.52	18.57	56
57	1,268.50	1,295.50	1,309.00	78.83	38.59	19.09	57
58	1,231.50	1,258.50	1,272.00	81.20	39.72	19.65	58
59	1,194.60	1,221.60	1,235.10	83.71	40.92	20.24	59
60	1,157.70	1,184.70	1,198.20	86.37	42.20	20.86	60
61	1,120.80	1,147.80	1,161.30	89.22	43.56	21.52	61
62	1,084.10	1,111.10	1,124.60	92.24	45.00	22.23	62
63	1,047.60	1,074.60	1,088.10	95.45	46.52	22.97	63
64	1,011.30	1,038.30	1,051.80	98.88	48.15	23.76	64
65	975.20	1,002.20	1,015.70	102.54	49.89	24.61	65
66	939.60	966.60	980.10	106.42	51.72	25.50	66
67	904.20	931.20	944.70	110.59	53.69	26.46	67
68	869.30	896.30	909.80	115.03	55.78	27.47	68
69	835.00	862.00	875.50	119.76	58.00	28.55	69
70	801.10	828.10	841.60	124.82	60.37	29.70	70
71	767.80	794.80	808.30	130.24	62.90	30.92	71
72	735.20	763.20	776.70	135.83	65.51	32.18	72
73	703.20	733.20	746.70	141.60	68.19	33.48	73
74	671.80	705.80	718.50	147.49	70.92	34.79	74
75	651.60	678.60	692.10	153.46	73.68	36.12	75
76	632.90	653.90	667.40	159.51	76.45	37.45	76
77	614.10	631.10	644.60	165.53	79.22	38.78	77
78	595.10	610.10	623.60	171.49	81.95	40.08	78
79	576.00	591.00	604.50	177.30	84.60	41.35	79
80	546.80	573.80	587.30	182.88	87.13	42.56	80
81	531.50	558.50	572.00	188.14	89.58	43.70	81
82	518.10	545.10	558.60	193.01	91.79	44.75	82
83	506.60	533.60	547.10	197.39	93.70	45.69	83
84	497.10	524.10	537.60	201.16	95.40	46.50	84
85	489.50	516.50	530.00	204.29	96.80	47.18	85

ANNUITY TABLES—MALES (SEE ANNUITY)

Delaware & Hudson; Erie; New York, Ontario & Western, and Lehigh & New England.

**Anticipated Acceptance**

A bank or other acceptance which is paid before it becomes due. (See Acceptance.)

**Anti-Trust Act**

A term which refers to the Sherman Anti-Trust Act of 1890, or to the Clayton Act of 1914. (See Clayton Act.)

**Appliances**

See Bank Appliances.

**Application**

A general term to denote an offer to buy something or to enter into some kind of contract. For instance, applications are made for an allotment of bonds or stocks offered for sale by signing a subscription list or blank. Applications are also made

for money orders, letters of credit, cable transfers, bank accounts, loans, participations in loans, etc. It should be understood that an application is merely an offer, and not an acceptance of an offer. Prior to acceptance, it does not, therefore, bind either party.

**Appraisal**

The act of placing a value upon property, either real or personal. Appraisals are made for various purposes, *c. g.*, taxation, adjustment by insurance companies of fire losses, by engineers for property to be offered for sale, by banks for determining collateral value, and by public utility commissions for determining the capital invested in public utility properties as a basis for adjusting rates to yield a reasonable return.

In appraising real estate for sale or mortgage loan purposes, the most important factors to be considered are: (1) value of similar adjacent property as established by

**LIFE ANNUITY RATES—Females.**  
**NON-PARTICIPATING.**

**LIFE ANNUITY RATES—Females.**  
**NON-PARTICIPATING.**

Age last birthday.	PRICE OF \$100 ANNUITY.			ANNUITY PURCHASED BY \$1,000.			Age last birthday.
	\$100 Annually.	\$50 Semi-Annually.	\$25 Quarterly.	Annual Paym't.	Semi-Annual Paym't.	Quarterly Paym't.	
2	\$2,648.20	\$2,675.20	\$2,688.70	\$37.76	\$18.69	\$9.29	3
4	2,637.20	2,664.20	2,677.70	37.91	18.76	9.33	4
5	2,624.50	2,651.50	2,665.00	38.10	18.85	9.38	5
6	2,610.10	2,637.10	2,650.60	38.33	18.93	9.43	6
7	2,594.30	2,621.30	2,634.80	38.54	19.07	9.48	7
8	2,576.80	2,603.80	2,617.30	38.80	19.20	9.55	8
9	2,557.70	2,584.70	2,598.20	39.09	19.34	9.62	9
10	2,538.10	2,565.10	2,578.60	39.39	19.49	9.69	10
11	2,518.70	2,545.70	2,559.20	39.70	19.64	9.76	11
12	2,499.10	2,526.10	2,539.60	40.01	19.79	9.84	12
13	2,479.60	2,506.60	2,520.10	40.32	19.94	9.92	13
14	2,460.10	2,487.10	2,500.60	40.64	20.10	9.99	14
15	2,440.70	2,467.70	2,481.20	40.97	20.26	10.07	15
16	2,421.60	2,448.60	2,462.10	41.29	20.41	10.15	16
17	2,402.40	2,429.40	2,442.90	41.62	20.58	10.23	17
18	2,383.40	2,410.40	2,423.90	41.95	20.74	10.31	18
19	2,364.90	2,391.90	2,404.40	42.28	20.90	10.39	19
20	2,346.40	2,373.40	2,386.90	42.61	21.06	10.47	20
21	2,328.40	2,355.40	2,368.90	42.94	21.22	10.55	21
22	2,309.70	2,336.70	2,350.20	43.29	21.39	10.63	22
23	2,290.80	2,317.80	2,331.30	43.65	21.57	10.72	23
24	2,270.90	2,297.90	2,311.40	44.03	21.75	10.81	24
25	2,250.90	2,277.90	2,291.50	44.42	21.95	10.91	25
26	2,230.10	2,257.10	2,270.60	44.84	22.15	11.01	26
27	2,208.70	2,235.70	2,249.20	45.27	22.36	11.11	27
28	2,186.90	2,213.90	2,227.30	45.72	22.58	11.22	28
29	2,164.60	2,191.60	2,205.10	46.19	22.81	11.33	29
30	2,141.90	2,168.90	2,182.40	46.68	23.05	11.45	30
31	2,118.50	2,145.50	2,159.00	47.20	23.30	11.57	31
32	2,094.90	2,121.90	2,135.40	47.73	23.56	11.70	32
33	2,070.90	2,097.90	2,111.40	48.28	23.83	11.84	33
34	2,046.90	2,073.90	2,086.80	48.86	24.11	11.98	34
35	2,021.90	2,049.90	2,062.00	49.46	24.40	12.12	35
36	1,996.30	2,025.30	2,036.80	50.09	24.71	12.27	36
37	1,970.70	1,997.70	2,011.20	50.74	25.02	12.43	37
38	1,944.60	1,971.60	1,985.30	51.41	25.35	12.59	38
39	1,918.50	1,945.50	1,959.00	52.12	25.70	12.76	39
40	1,891.90	1,918.90	1,932.40	52.85	26.05	12.93	40
41	1,865.10	1,892.10	1,905.60	53.61	26.49	13.11	41
42	1,837.80	1,864.80	1,878.30	54.41	26.91	13.30	42
43	1,810.50	1,837.50	1,851.00	55.23	27.21	13.50	43

Age last birthday.	PRICE OF \$100 ANNUITY.			ANNUITY PURCHASED BY \$1,000.			Age last birthday.
	\$100 Annually.	\$50 Semi-Annually.	\$25 Quarterly.	Annual Paym't.	Semi-Annual Paym't.	Quarterly Paym't.	
44	\$1,782.60	\$1,809.60	\$1,823.10	\$56.09	\$27.63	\$13.71	44
45	1,754.50	1,781.50	1,795.00	56.99	28.06	13.92	45
46	1,725.90	1,752.90	1,766.40	57.94	28.52	14.15	46
47	1,697.00	1,724.00	1,737.50	58.92	29.00	14.38	47
48	1,667.80	1,694.80	1,708.20	59.95	29.50	14.63	48
49	1,637.90	1,664.90	1,678.40	61.05	30.03	14.89	49
50	1,607.70	1,634.70	1,648.20	62.20	30.58	15.16	50
51	1,576.90	1,603.90	1,617.40	63.41	31.17	15.45	51
52	1,545.40	1,572.40	1,585.90	64.70	31.79	15.76	52
53	1,513.40	1,540.40	1,553.90	66.07	32.45	16.08	53
54	1,480.60	1,507.60	1,521.10	67.54	33.16	16.43	54
55	1,447.20	1,474.20	1,487.70	69.09	33.91	16.80	55
56	1,412.70	1,439.70	1,453.20	70.78	34.72	17.20	56
57	1,377.60	1,404.60	1,418.10	72.59	35.59	17.62	57
58	1,341.70	1,368.70	1,382.20	74.53	36.53	18.08	58
59	1,304.90	1,331.90	1,345.40	76.63	37.54	18.58	59
60	1,267.50	1,294.50	1,308.00	78.89	38.62	19.11	60
61	1,229.10	1,256.10	1,269.60	81.36	39.80	19.69	61
62	1,190.30	1,217.30	1,230.80	84.01	41.07	20.31	62
63	1,150.80	1,177.80	1,191.30	86.89	42.45	20.98	63
64	1,110.90	1,137.90	1,151.40	90.01	43.94	21.71	64
65	1,070.80	1,097.80	1,111.30	93.36	45.54	22.49	65
66	1,030.50	1,057.50	1,071.00	97.04	47.25	23.34	66
67	990.30	1,017.20	1,030.70	100.98	49.15	24.25	67
68	950.20	977.20	990.70	105.24	51.16	25.23	68
69	910.40	937.40	950.90	109.84	53.33	26.29	69
70	876.80	905.30	918.80	113.85	55.23	27.20	70
71	846.80	873.80	887.90	118.09	57.22	28.17	71
72	818.20	843.20	858.70	122.51	59.29	29.18	72
73	789.20	813.20	829.70	127.19	61.43	30.24	73
74	757.10	784.10	797.60	132.08	63.76	31.34	74
75	728.90	755.90	769.40	137.19	66.14	32.49	75
76	701.80	728.80	742.30	142.49	68.60	33.67	76
77	675.60	702.60	716.10	148.01	71.16	34.91	77
78	650.60	677.60	691.10	153.70	73.78	36.17	78
79	626.60	653.60	667.00	159.61	76.51	37.48	79
80	603.60	630.50	644.00	165.70	79.30	38.81	80
81	581.70	608.70	622.20	171.90	82.14	40.18	81
82	560.80	587.80	601.30	178.31	85.06	41.57	82
83	541.00	568.00	581.50	184.84	88.02	42.99	83
84	522.40	549.40	562.90	191.42	91.00	44.41	84
85	504.80	531.80	545.30	198.09	94.02	45.84	85

NOTE.—For ages older than 85 the rates are the same as for age 85. A pro rata allowance will be made for each quarter of a year elapsed since last birthday.

ANNUITY TABLES—FEMALES (SEE ANNUITY)

recent sales; (2) capitalization of current net income from the property; (3) trend of income in the past five years; (4) likelihood of enhancement or deterioration of the property based upon the future of the district in which it is located.

**Appraisalment**

See Appraisal.

**Appraiser**

A person who makes an appraisal. In England, a professional appraiser is licensed and the statements of appraisal, called appraisements, are subject to a stamp tax. (See Appraisal.)

**Appreciation**

Increase in value of any kind of property through a rise in its market price. A stock purchased at 50 and having a present market

price of 65 has appreciated 15 points. It is the opposite of depreciation, although depreciation usually refers to deterioration or obsolescence of physical properties rather than to loss in value due to a decline in market price. Bonds, stock or real estate may appreciate; a savings deposit cannot.

**Appropriation**

A fund authorized and set aside by a business for some special use, *e. g.*, advertising, new building, etc.

**Arbitrage**

Buying a commodity—whether foreign exchange, stocks, bonds, gold or silver bullion, bills of exchange, and less frequently grains and other commodities—in one market and selling it immediately in another where the ruling price is temporarily higher. As applied to triangular or indirect trans-



actions in foreign exchange for the purpose of making a profit by the purchase of a foreign currency in one market and selling in another, where the price is temporarily higher, an illustration is given for the purpose of clearness. Suppose that on a certain day French francs are selling in New York for 19.3c. Simultaneously sterling can be purchased in New York at \$4.8880 per pound, and francs in London at the rate of 26 francs per pound. The New York rate for francs purchased directly is 19.3c, but by first purchasing sterling it is then possible to buy 26 francs for \$4.888 in London, making the cost of one franc, by this indirect process,  $1/26$  of 4.888, or 18.8c. Thus a profit of  $1/2c$  on each franc could be realized.

Arbitrage may be transacted wholly within one country. Thus a New York broker may buy a security on the Philadelphia Stock Exchange at a lower price than the prevailing price of the same security on the New York Stock Exchange, for sale in New York.

Profits through arbitrage would be impossible if the prices of the currencies, commodities or securities enjoying a world market, and traded in internationally, were delicately adjusted to exact commercial parities. Through the operation of world markets, there is an international price level for the principal commodities, foreign currencies, and international securities. Each local market, however, such as New York and London, is affected by temporary disturbances and conditions, destroying the normal equilibrium of supply and demand so that constant local changes in price occur. Successful arbitrage transactions consist, therefore, of buying in a weak "world market" and simultaneously selling in another that is strong. It depends, also upon efficient telegraphic or cable connections between the markets operated in, a knowledge of international price movements, capacity to make rapid computations in order to take advantage of temporary price conditions, and finally, a large capital, because arbitrage profits are small in comparison with the amount of money involved. Arbitrage houses in widely separated markets must be in constant communication and keep each other informed on market prices and tendencies. Arbitrage transactions between two houses are usually conducted on a joint account basis, profits being equally divided between the engaging parties.

From an economic standpoint, the effect

of arbitrage dealings is to correct maladjustments in the prices of commodities enjoying a world market. It is a force tending to equalize, *i. e.*, establish commercial parities among foreign markets for the same commodity through competition of arbitrageurs. For instance, when rates of exchange in one market tend to sag, arbitrageurs from abroad will buy, and as a result of the increased demand, rates advance, until the equilibrium is restored. Conversely, when the rates tend to advance, arbitrageurs will offer the exchange freely, until rates recede to a point where sales are no longer profitable. (See Back Spread.)

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#### Arbitrage House

A stock exchange house, private banker, investment banker, or a foreign exchange dealer, which specializes in arbitrage transactions. (See Arbitrage.)

#### Arbitrageur

One skilled in arbitrage; an arbitrage dealer. Also spelled arbitrager. (See Arbitrage.)

#### Arbitrated Exchange

See Arbitration of Exchange.

#### Arbitration of Exchange

A calculation based on rates of exchange to determine the difference in value of a given currency in three different places or markets, particularly when made with a view to determine the cheapest way of making a remittance between two countries. The result is called the *arbitrated exchange*, but this term is gradually being replaced by the term commercial parity. When three places are involved the calculation is called simple arbitration; when more, compound arbitration. (See Arbitrage.)

#### Argentina

See Foreign Moneys—Argentina.

#### Arrears

A debt or contingent obligation due but unpaid; back dividends on preferred stock. Dividends on cumulative preferred stock



which have not been paid are said to be in "arrears".

### Arrival Draft

A draft with shipping documents attached, payable upon arrival of the shipment against which it is drawn. Arrival drafts are usually forwarded by the shipper to the collecting bank (presumably a correspondent of the shipper's bank) located at the domicile of the consignee, with instructions not to demand payment therefore until the goods for which the draft has been drawn in payment have arrived at the drawee's (consignee's) destination.

An arrival draft is usually drawn and forwarded for collection at the time the goods are shipped and consequently the draft invariably reaches its destination before the goods. An arrival draft is first presented upon receipt to notify the drawee of its arrival and where it is held for payment, so that when the shipment arrives (the consignee will be notified by an arrival notice from the transportation company), the drawee may take it up. In case the goods arrive before the presentation of the draft for notification, the draft becomes payable immediately.

An arrival draft provides a means of insuring payment for the goods against which it is drawn, before delivery. Shippers usually consign goods to their own order and in such cases the bill of lading must bear the shipper's indorsement. Since the transportation company will not release the goods without surrender of the bill of lading, and the collecting bank will not surrender the bill of lading until the draft is paid, the shipper protects himself by retaining title until the goods are paid for.

Sometimes the drawee, before paying an arrival draft, will ask permission to inspect or even sample the goods. This is justified if the shipment is of a perishable nature and a delay in transportation has occurred. The right of inspection is conferred by the collecting bank only if allowance of inspection or sampling is specified in the bill of lading. Otherwise it is necessary to wire the shipper or consult the shipper's local representative for instructions. If the consignee should reject the shipment, the shipper or the shipper's local representative is notified immediately and the goods are disposed of in accordance with instructions. (See Draft.)

### Articles of Association

An instrument similar to a certificate of incorporation, but applied particularly to mutual, mutual-benefit, social, charitable and other non-stock corporations.

The execution of this instrument is usually the first official step in the organization of all types of banking institutions. In the case of national banks, a form is furnished by the Comptroller of the Currency. This requires a recital of such facts regarding the proposed bank as title, location, capital stock, number of directors, date of annual meeting, powers of directors, etc. The articles must be signed by the applicants (at least five) and prepared in duplicate, one for the Comptroller and one for preservation in the files of the bank. (See Bank Organization, Organization Certificate.)

### Asiatic Currency

Currencies of Asiatic countries. Several of these countries, *e. g.*, China and Persia, have a silver standard. Consequently, rates of exchange fluctuate in accordance with trade influences and the gold price of bar silver in the London market, and are never fixed.

### Asked Price

The price at which a security or commodity is formally offered for sale on one of the exchanges. Bid and asked quotations for stocks and bonds are quoted in the daily newspapers as indicative of the price at which such securities can presumably be purchased. (See Bid and Asked Quotations.)

### As per Advice

Where they occur in a letter or upon a draft or bill of exchange, these words indicate that notice has, or is to be given, to the drawee that the draft has been drawn.

### Assay

A test to determine the per cent. of pure metal in a specimen of ore or bullion. An assay report indicates that a certain gold ore submitted for analysis will yield, say \$14, \$50 or \$600 of pure gold per ton, or that certain bullion is .985 fine.

### Assay Office

A laboratory for testing metals and ores, usually gold and silver. Official assay offices are a part of the organization of the United States Mint, and their function is

to assay and buy gold and silver when presented as bullion, jewelry, or any other odd shapes. The United States assay office is located in New York City, with agencies at New Orleans, Carson, Boise, Helena, Deadwood, Salt Lake City, and Seattle. These offices receive bullion on the same terms as the United States mints plus an additional charge of 1/8 of 1 per cent. A charge is also made for assaying metal for other than sellers to the Government. (See Coinage, Mint.)

### Assay Office Bar

A bar of pure or nearly pure gold or silver manufactured at a mint and assayed by a Government assay office. The term commercial bar is given to those assayed by a private assayer.

### Assented Securities

Securities the owners of which have agreed to some change in their status, especially in case of reorganization where an assessment is made or the amount of securities is scaled down according to some definite plan. The stock certificates of stockholders who have paid their assessment would be stamped "assessment paid" or "assented". In a reorganization of the Westinghouse Electric & Manufacturing Company in 1891 common stockholders were requested to surrender 40 per cent. and retain 60 per cent. of their stock. The 60 per cent. retained was known as "assenting" stock, the status of which was changed practically to that of a second preferred stock, since it was entitled to receive seven per cent. preferential dividends before the other common stock.

### Assessable

See Non-Assessable.

### Assessed Valuation

The valuation placed upon real or personal property for purposes of taxation, but the term usually refers to the taxable value of real estate. The rules for fixing assessed value vary in the different states; sometimes they are based upon full marketable value, but more often less, *e. g.*, two-thirds or one-half.

Since the debt limit of most municipalities is prescribed by law, the assessed valuation of the property of a borrowing municipality is important as indicating its borrowing power. Investment bankers and investors who buy municipal bonds should ascertain

the proportion of debt to assessed valuation in order to determine whether the debt is excessive. Usually these statistics are exhibited in circulars offering municipal bonds.

### Assessment

A levy upon the security holders of a corporation for the purpose of raising additional capital in the case of financial difficulties, such as threatened or actual insolvency, or in a reorganization. (See Double Liability, Non-Assessable.)

### Assessor

One who appraises or assesses the value of property, *e. g.*, a tax assessor.

### Asset Currency

Same as *General Asset Currency* (q. v.). (See Baltimore Plan.)

### Assets

An accounting term to signify properties and claims against others, owned by a business or individual, as distinguished from debts or other obligations due to others. Assets are classified as fixed, current and deferred, and as tangible and intangible. A balance sheet is a statement of assets, liabilities and capital (or deficit). (See Balance Sheet, Current Assets, Fixed Assets, Intangible Assets, Tangible Assets.)

### Assignats

A name given to paper money authorized to be issued in 1789 by the revolutionary French Government. They were non-interest bearing notes, which originally were secured by the confiscated properties of the Church and were a typical example of fiat money. Successive issues were authorized and issued in such volume without security that they depreciated rapidly, and in the end became valueless.

### Assigned Book Accounts

Book or open accounts of a business, the title of which has been transferred to a commercial credit company or to a bank as collateral for a loan. The nature of the assignment varies according to the arrangement provided for paying the loan. Sometimes the borrower's customers are required to pay the amounts owing directly to the lending institution, especially where the borrower's affairs are in a bad condition, although often the borrower desires to conceal from the customers the fact that their

accounts have been assigned. In this case, when payments on account are made they are turned over to the lending institution and applied in reduction of the loan. To protect the lender it is usually required that the accounts on borrowers' books be stamped to indicate that they have been assigned as collateral against a loan. Assigned book accounts are not regarded as high-grade collateral and concerns that raise money in this manner are not considered as first-grade risks, inasmuch as they have usually exhausted every other available credit resource.

**Assignee**

One to whom property, or rights to, or interest in property have been assigned, either as an individual or trustee.

**Assignment**

A transfer in writing of a right, claim or interest. Definite rules have been formulated by stock exchanges to govern the transfer (assignment) of stock. (See Assignment in Blank, Assignment for the Benefit of Creditors, Good Delivery, Stop Transfer Order.)

**Assignment for the Benefit of Creditors**

An act by which an insolvent person or company (assignor) transfers title to property to a trustee (assignee), who is empowered to administer and liquidate the property and to distribute the proceeds to the creditors.

**Assignment in Blank**

A formal transfer of title to stock or registered bonds on the reverse of the certificate in which the space for the insertion of the name of the new owner is left blank so that the name may be written in at any subsequent time. A stock certificate or a registered bond assigned in blank should not be purchased from an unknown person without proper identification and evidence of genuineness of the signatures of the assignor and witnesses. Street certificates are assigned in blank.

The following is a form of assignment on the reverse side of a stock certificate which has been approved by the Committee on Stock List of the New York Stock Exchange:

For value received.....  
 hereby sell, assign and transfer unto  
 .....  
 .....shares of the capital stock  
 represented by the within certificate,  
 and do hereby irrevocably constitute and  
 appoint .....  
 attorney to transfer the said stock on  
 the books of the within named company  
 with full power of substitution in the  
 premises.  
 Dated .....  
 In the presence of.....  
 Signature guaranteed  
 .....Bank.

*Notice*—The signature of this assignment must correspond with the name as written on the face of this certificate in every particular without alteration or enlargement or any change whatever.

**Assignor**

One who makes an assignment. (See Assignment, Assignment for the Benefit of Creditors, Assignment in Blank.)

**Assimilate**

An expression to denote that the demand for securities is sufficient to absorb offerings without appreciable decline in prices. (See Absorb, Digested Securities.)

**Assistant Treasurer of the United States**

See Treasury Department.

**Associated Banks**

Banks which are members of the same clearing house association.

**Association**

See Voluntary Association.

**Assumed Bonds**

Bonds of one corporation taken over by another. When one corporation purchases or gains control of another through lease or ownership of majority of the stock, it assumes the latter's debts and, therefore, its bonds, *e. g.*, a parent company assumes the bonds of a newly acquired subsidiary. In railroad finance, assumed bonds are usually divisional bonds, *i. e.*, the bonds of smaller companies acquired and operated as divisions.

Assumed bonds are sometimes improperly called guaranteed bonds. This is a wrong designation unless the bonds are indorsed



by the parent company, which, however, is responsible for payment of both principal and interest without indorsing them.

### At Call

On call. (See Call Money, Call Money Market.)

### At or Better

A term used in connection with brokerage orders. In connection with a buying order, it means to purchase at the price specified or under; in a selling order, to sell at the price specified or above.

### At Sight

A term used in drafts and bills of exchange, indicating that payment is due on demand or presentation.

### Attestation

The formal witnessing of a signature, or signatures, on documents which require it.

### At the Market

A term used in reference to an order left with a broker for execution at the best available price. No price limit is specified, but it is presumed that the order will be executed at a price fractionally close to the last sale. Such an order is immediately communicated to the floor trader. (See Orders.)

### At the Opening

A term used in reference to an order left with a broker for execution at the best price obtainable after the opening of the market. No price limit is specified. If the order is for the purchase or sale of an odd lot, however, it must be executed at one-eighth or one-quarter of a point above or below the opening price for a full lot.

### At Three Days

A term which refers to one of the methods of trading in securities on the New York Stock Exchange, in which delivery and payment are made the third day following the sale. (See Methods of Trading.)

### Attorney, Power of

See Power of Attorney.

### Attorney's Opinion

See Legal Opinion.

### Auction

A special market in which there is one seller and many buyers. An auction sale is conducted by an auctioneer who permits buyers to bid against one another, the goods going to the highest bidder. The entire public without discrimination is invited to participate. In an honest auction goods are sold regardless of cost, unless the seller reserves the right to reject all unsatisfactory offers, and the final price is determined by the value of the article to the successful bidder. Auctions are usually conducted for the purpose of selling out the property of the estate of a deceased person or in liquidating an insolvent business. Auction terms are usually spot cash for immediate delivery. Auction prices are sometimes referred to as liquidating prices, "forced sale," or "under-the-hammer" prices.

### Audit

An examination of the books and records of a business to determine: (1) the financial status culminating in the balance sheet, and (2) the results of operations culminating in the profit and loss statement. There are three principal kinds of audits—balance sheet audit, cash audit and detailed audit. The first involves a verification of the assets and liabilities, a cash audit tests the accountability of one who has cash or funds in his custody, while a detailed audit involves a complete examination and verification of all the accounts, books, records and transactions in detail. While the final result of an audit is the disclosure of the financial status, as exhibited by the financial statements, there are several incidental purposes, *e. g.*, to test the accuracy of the bookkeeping, to prevent recurrences of errors or fraud, to insure against over-valuation of assets and under-valuation of liabilities, and to determine improved methods of expediting clerical and bookkeeping procedures. In an audit, the books and records are examined, not only to test their arithmetical accuracy, but to test their agreement with the physical existence of assets, collateral against loans, special deposits, etc. An audit should also disclose any possible defalcation or misappropriation or conversion of funds.

Bank audits may be conducted by professional public accountants, by directors of the bank, or by the staff auditor or *Auditing Department* (q.v.). Audits conducted by official bank examiners are known as examinations. (See Bank Examinations.)

**Auditing**

See Audit, Auditing Department.

**Auditing Department**

The department of the bank which supervises the bookkeeping, accounting and auditing functions, usually in charge of an officer known as *Auditor* (q. v.). The purpose of this department is to secure a daily control of all transactions occurring in each department by condensing the department proofs; to secure periodical reconcilements of customers' accounts and to make investigations of errors and exceptions reported; to analyze expenses and earnings; to conduct examinations of the departments having custody over the bank's assets to secure two results: (a) to verify the physical existence of the assets as reported upon the books; (b) to appraise these assets as a safeguard against possible over-valuation; to secure an independent accounting control over each department in order to test the accuracy of its records; and to compile various reports and statements of condition as may be required by the bank's officers, official bank examiners, Comptroller of the Currency, or State Banking Department. As usually organized this department combines with auditing the functions of comptrolling.

**Auditor**

One who conducts an audit. (See Audit, Auditing Department, Certified Public Accountant, Bank Examiners.)

**Authority to Purchase**

An instrument used as a substitute for the commercial letter of credit. A foreign shipment may be financed by the importer, either through a letter of credit or an authority to purchase. The former instrument vests the exporter with the right to draw drafts upon a bank. On the other hand, an authority to purchase instructs the shipper to draw his draft upon the importer directly, but assures him that the draft will be purchased by the notifying bank.

An authority to purchase applies almost exclusively to Far Eastern commerce, especially intra-Chinese transactions, or to facilitate exports from the United States to the Far Eastern countries. They are practically always issued in dollars. They follow the same differences as letters of credit as to (1) tenor of drafts, (2) documents required, (3) form of currency and (4) privilege of cancellation.

The following is a form of authority to purchase:

No.....

**AUTHORITY TO PURCHASE**

The.....Bank  
 Shanghai..... 19....

To .....

Dear Sirs:

We hereby authorize you to negotiate to the debit of our account, the drafts drawn by ..... on ..... of ..... at ..... sight, up to the aggregate amount of ..... against shipment of ..... , to ..... Insurance against all risks is to be effected by the shipper, unless otherwise instructed.

Drafts are to be made out in duplicate and to contain the clause "with interest added at the rate of .....% per annum from date hereof to approximate date of receipt of remittance in ....." and to be accompanied by a full set of Bills of Lading, or Parcel Post Receipts, or Insurance Policies (all made out or indorsed to the order of the ..... Bank), and invoices of goods shipped for the amount of such drafts.

Drafts drawn under this Authority to Purchase must also state that they are "Drawn under ..... Bank, A/P No....., dated..... 19...."

This authority remains in force till ..... 19...., and is subject to Revocation or Irrevocable without the consent of the beneficiaries.

(See Letters of Credit.)

**Authorized Bonds**

The amount of bonds which a corporation or governmentality may legally issue. Corporations are not required to issue at one time the entire amount authorized. A part of the bonds authorized may be held awaiting the need for additional capital. Power to issue bonds usually is fixed by the corporate by-laws and usually requires a two-thirds vote of the stockholders. In the case of public utility and railroad corporations, bonds cannot be issued without the permission of the local Public Service Commission, or Interstate Commerce Commission, respectively. A state or municipality is usually not permitted to issue bonds in excess of the debt limit fixed by law. This limit is usually

based upon the total assessed valuation of the property. (See Bond.)

### Authorized Capital Stock

The amount of capital stock which a corporation is authorized to issue according to its charter or certificate of incorporation. A corporation is not required to issue the entire amount of stock authorized. The difference between the authorized stock and that issued and outstanding is called unissued stock. Stock may be issued for cash, other assets or services, or disbursed as stock dividends, but it must not be issued for a consideration less than its par value if it has one, or less than a minimum value fixed by law, if it has no par value. A corporation may change its authorized capital stock, but only by amendment to its certificate of incorporation. (See Capital Stock.)

### Automatic Currency

Another term for *Elastic Currency* (q. v.).

### Availability Date

First read *Federal Reserve Check Collection System*.

The date upon which the proceeds of checks or other items drawn on out-of-town banks, and forwarded by the sending bank for collection through the Federal Reserve check collection system, are received and credited by the Federal Reserve bank to the reserve account of the sending bank. Each Federal Reserve bank publishes a "Schedule Showing When the Proceeds of Items Will Become Available," covering every point in the United States, so that member or clearing member banks sending checks for collection through a Federal Reserve bank may know on what days such checks will be credited to their reserve accounts.

### Available Assets

Free or unencumbered assets; assets which may be sold or otherwise employed, because not loaned, pledged as collateral against a loan, or otherwise covered by lien.

### Available Fund

A fund held by a non-stock savings bank in cash or on deposit with another bank or trust company for the purpose of paying withdrawals in excess of current receipts, for meeting current obligations, or for awaiting a more favorable opportunity for investment. In New York state this fund is limited to 20 per cent. of deposits.

### Avails

See Net Avails.

### Average

In ocean shipping, this term refers to the loss or damage sustained by a ship or its cargo, or to the amount payable by the owner of the ship and the owners of the cargo to make good such loss or damage.

Average is of two classes—particular and general. A particular average is borne entirely by the owner, or his insurer, of the particular property which is lost or damaged, whether a part of the ship or of its cargo. The loss of or damage to any particular property cannot be assessed among all the cargo owners. A general average, however, is one incurred in the common interests of the ship and cargo, and is borne by all the parties interested in the ship and cargo in proportion to such interests as ascertained by persons known as average adjusters. Jettison (throwing overboard a certain part of the cargo in order to save the rest) is a loss that would be defined as a general average.

### Average Adjuster

See Average.

### Average Book

See Average.Loan and Balance File.

### Average Loan and Balance File

A card file or book customarily kept by banks to show each customer's average daily or monthly loans and deposits over a period of, say, ten years. The information posted on these cards is obtained from the depositors' ledgers and the loan and bills discounted ledgers. It furnishes a quick and convenient means of obtaining important information concerning depositors' accounts, *e. g.*, (1) amount of average deposits and loans as a measure of profitableness, (2) to determine the average balance as a measure of possible borrowing power when applying for a loan, (3) to determine whether the average balance is in proportion to loans (usually a 20 per cent. average balance is required to be maintained against loans), and (4) to determine whether the deposit balance is increasing or decreasing. (See Central File.)

### Average Reserve Position

See Clearing House Statement.



**Averages**

See Market Averages.

**Averaging**

A method used by stock market speculators to reduce the cost of purchases. Averaging down means to buy more stock of a given issue at a price less than the last purchase successively as the price declines. Averaging up means to buy more of a given security at successively higher prices as prices advance. This method is employed out of recognition of the fact that the high and low points of a movement cannot be

exactly predicted. Averaging is, therefore, a method of insurance against altogether missing the market.

**Award**

The acceptance of a bid to buy a block of securities. Bond issues, particularly municipal bonds, are frequently offered for sale to competitive buyers under sealed bids. This term is generally used to indicate the formal acceptance by the proper authorities of the offer to purchase of investment banker or bond house which has been the successful bidder.

## B

### Baby Bonds

Bonds of denominations of \$50 and \$100, issued as a means of widening the investment market and to permit increased diversification.

### Back

An abbreviated term for *Backwardation* (q. v.).

### Back Spread

First read *Arbitrage*.

A term used in arbitrage transactions in securities, commodities, or foreign exchange, when the price of the same thing in different markets is less than the normal difference. Suppose, for example, United States Steel is selling on the New York Stock Exchange at \$90 and on the London Stock Exchange at \$93, the difference in the quotations representing a permanent difference due to cost of shipment, insurance, exchange rates, loss of interest, etc., to make them equivalent, or to establish commercial parity. Assuming three points to be the normal difference in quotations for this stock as between these two markets, no profit could be made by buying in New York and selling in London, or vice versa. If, however, the London quotation should be less than \$93, say, \$91, making the difference less than normal, a profit could be made by buying the stock in London and selling simultaneously in New York. Such a transaction is known as a Back Spread.

A back spread differs from a spread in that in the latter the difference in price between two markets is greater than the normal difference. (See Spread.)

### Backwardation

A term applicable to a practice of delaying settlement on the London Stock Exchange. Suppose a speculator who has sold stock for delivery at the next *Fortnightly Settlement* (q. v.) wishes to postpone the delivery until the following settlement period because of his belief that the price of the security will in the meantime decline, and accordingly arranges with his broker to postpone delivery. This is secured either through obtaining the consent of the purchaser to delay

delivery for a consideration, or by borrowing the stock from someone else. The consideration or charge made by the purchaser or lender of the stock for the privilege granted to the seller by extending the time of delivery is called Backwardation.

On the other hand in the reverse situation, when the speculator who has bought stock desires to postpone delivery, the charge made for the accommodation is called a contango. This charge based on the interest on the amount of the transaction during the period between the settlement days is made because the seller must wait till the next settlement for his money. Backwardation is paid by the seller, while contango is paid by the buyer.

### Bad Debts

In commercial usage, uncollectible accounts; receivables whether evidenced by overdue open book accounts, or notes which are irrecoverable. Bad debts usually arise through the insolvency or disappearance of the debtor, and provision for these losses should be made by setting up a reserve.

In banking usage, bad debts are bad loans which arise through the failure of makers or indorsers to pay at maturity notes or drafts which they have signed. Notes not paid at maturity are protested and usually turned over to the legal department for enforcement of payment. In the meantime, they are charged to *Bills Overdue* account. If it becomes apparent that the maker of a note is irretrievably insolvent and that there is no possibility of making a collection, the note is charged to *Undivided Profits*. If notes once charged to *Undivided Profits* are subsequently collected, they are known as *Recoveries* and credited to *Undivided Profits*.

The National banking laws define bad debts to be those on which interest is past due and unpaid for a period of six months, unless well secured, and in process of collection. Bad debts thus defined must be deducted from profits. (See Bills Discounted, Overdue, Recovery.)

### Bad Delivery

In the sale and transfer of stock certain conditions are imposed by the rules of stock exchanges. These rules relate to days and

hours of delivery, assignment of stock, power of attorney, etc. If deliveries are made without the proper observance of these rules, they are known as Bad Deliveries. What constitutes a good delivery is explained under *Good Delivery* (q. v.).

**Bad Loans**

See Bad Debts.

**Bailee**

One to whom goods are entrusted for some specific purpose. The bailee has temporary possession of such goods entrusted to him, but in no sense owns them. A railroad company which receives a shipment of goods for transportation under a contract of bailment, called the bill of lading, is a bailee. Warehousemen who accept property for storage are also bailees, the contract of bailment being a warehouse receipt.

Safe deposit companies which receive the valuables of customers for safe-keeping act as bailees, and as such have a lien on the property deposited in case rentals are not paid after a specified time. While the laws in the various states differ, as a rule if the rental on a safe deposit box is not paid for two years, notice may be sent to the renter that, if not paid before, the contents will be sold in 30 days for payment of the rent.

Where a bank or trust company acts as custodian of securities, it is a bailee.

**Bailee Receipt**

A receipt given to a bank holding title to goods by a bailee, a customer of the bank who is permitted to sell them for the account of the owning bank. A bailee receipt is often used in lieu of a *Trust Receipt* (q. v.), given upon release of documents covering imports for the purpose of warehousing, selling or manufacturing. The trust receipt has proved to be inadequate collateral and only as good as the credit standing of the signer. It has often failed the banks in pressing claims against third parties who have purchased goods from the borrower. In releasing shipping documents so that imports may be procured at the steamship terminal, and sold in advance of the maturity of the draft drawn against the bank, banks sometimes require customers of doubtful standing to sign a bailee receipt. This instrument is regarded as more stringent than the trust receipt and is supposed to offer the bank greater protection. The opinion has

been expressed, however, that a trust receipt is a priori a bailee receipt and that legally no difference exists between the two instruments.

The following is a typical form of bailee receipt:

Received from the.....Bank, solely for the purpose of selling the same for account of said bank, the following property, marked and numbered as follows:

.....  
and.....hereby undertake to sell said property for account of said bank, and collect the proceeds thereof and deliver the same immediately upon receipt to the said bank in whatever form collected to be applied to the credit of ....., hereby acknowledging .....to be bailee of said property for the said bank, and..... do hereby assign and transfer to the said bank the accounts of the purchasers of said property to the extent of the purchase price thereof, of which fact notice shall be given at the time of delivery of said property by..... to said purchaser or purchasers, and all invoices therefor shall have printed, written or stamped thereon the following: "Transferred and payable to the .....Bank."

If said property is not sold and the proceeds so deposited within ten days from this date, .....undertake to return all documents at once upon demand or to pay the value of the goods at the bank's option.

The said goods while in our hands shall be fully insured against loss by fire for the benefit of the bank.

The terms of this receipt and agreement shall continue and apply to the merchandise above referred to, whether or not control of the same or any part thereto be at any time restored to the .....Bank and subsequently delivered to us.

(See Trust Receipt.)

**Bailment**

The deposit of personal property by a bailor with the bailee for a specific purpose, such as safe custody, transportation, or storage. (See Bailee.)



### Bailor

A person who commits goods in trust to another person or corporation (the bailee) for a specific purpose. (See Bailee, Bailment.)

### Balance

The sum necessary to equalize the debit and credit totals of an account. A debit balance is the excess of debits over credits, and a credit balance is the excess of credits over debits. (See Bank Balance.)

### Balance of Trade

The difference between the money value of a nation's commodity exports and imports as shown by the Customs' Reports. It usually applies to a nation's trade with all other nations, although sometimes to the balance of trade with a specified nation, *e. g.*, England.

If the annual exports of the United States are eight billions a year and imports five billions, the difference of three billions is the balance of trade, or more accurately, balance of international trade, and is said to be favorable. When imports exceed exports, the balance of trade is unfavorable. When the money value of commodity exports and imports are not in balance, the difference is paid or remitted in some other kind of value. One of the chief mediums used in settling foreign balances is gold, although the purchase of securities, money remittances, payment of ocean freight and insurance charges, and other invisible imports also assist in settling balances with foreign countries. (See Gold Movements, Invisible Imports.)

### Balance Sheet

An itemized statement, known also as a *Financial Statement*, *Statement of Assets and Liabilities*, *Statement of Resources and Liabilities*, *Statement of Condition*, and simply *Statement*, showing the nature and amount of the assets, liabilities and net worth of a business as of a given date. The form is immaterial. From an accounting standpoint a balance sheet is a schedule of balances of the real accounts taken off the ledger after the nominal accounts have been closed. It is an instantaneous photograph or cross section of the affairs of a business, which discloses the equities of the various classes of owners in the net asset value or net worth.

A balance sheet is prepared primarily for the information of the proprietors or man-

agers, and in this respect, "the purposes of the balance sheet are twofold. Primarily it shows the financial status of the concern, giving information as to its solvency, and in a less degree it exhibits profits which have been made. The first purpose is on the face the most evident one. The balance sheet shows a cross section of the business, it presents the status at a given moment of time; it is ostensibly a showing of assets and liabilities, not of income and expenses. Yet the balance sheet is not without value as an exhibit of profits. Prepared, as it ordinarily is, at annual intervals, it serves, at least by comparison, to show the flow of income during the period, as well as the financial status at the moment of its preparation."\*

Among corporations the balance sheet is intended for the managers (board of directors and officers) rather than for the owners (stockholders). The latter usually receive a balance sheet in the annual report of the business, and in this connection, the balance sheet becomes a report of accountability of the managers to the stockholders. The balance sheet enables the managers (board of directors and officers) and owners (stockholders) to see whether the original investment has been kept intact, and whether additions have been made thereto, or losses sustained. By exhibiting the present financial status it discloses, by comparison with previous balance sheets, the results of past operations. It also enables the managers or owners to plan future policies and to control the assets and liabilities so as to increase the investment and equity of the owners.

While the primary purpose of a balance sheet is to furnish useful information concerning the business to its proprietors, it has several miscellaneous functions. Balance sheets are almost universally used as a basis for commercial and mortgage loans, and most banks require prospective borrowers to submit their latest financial statement upon application for a loan. They are essential to the scientific appraisal of the value of a business for the purposes of sale, and to furnish a basis for forming an intelligent opinion as to the value of its securities by investors and speculators. From all points of view, it is desirable that a balance sheet should be a truthful statement of the affairs of a business. To a large extent valuations appearing in a balance sheet, especially among the fixed assets, are a matter of

\* H. R. Hatfield; *Modern Accounting*, p. 54.

opinion, but such valuation should always be conservative. The balance sheet should show the financial position of a business to be no better than it actually is. Some of the states have enacted *False Statements Acts* (q.v.), which impose penalties upon borrowers who sign false statements as a basis for loans. (See *Bank Statement*, *False Statement Acts*, *Statement Analysis*.)

### Balance Sheet Tests

See *Statement Analysis*.

### Balboa

See *Foreign Moneys—Panama*.

### Ballooning

A stock market expression to denote the forcing of quotations of a given stock, or of the entire market, to unreasonably high or inflated values, *i. e.*, to levels out of accord with assets values and present or prospective earning power.

### Baltimore Plan

A plan presented and approved by the convention of the American Bankers' Association at Baltimore in 1894 at which it was proposed that the requirement in the National Bank Act for the deposit of government bonds in United States Treasury to secure the circulating notes of National banks be repealed. The proposed substitute plan recommended that the National banks be allowed to issue circulating notes up to one-half their paid-up and unimpaired capital, the notes to be subject to an annual tax of one-half of 1 per cent. Allowance was to be made for emergency currency to be subject to a heavier tax, to an additional amount of 25 per cent. The proposal recommended that the notes should constitute a first lien on the assets of National banks and should be further secured by a 5 per cent. guaranty fund to be held by the United States Treasurer.

### Bani

See *Foreign Moneys—Roumania*.

### Bank

A term said to be derived from the Italian word *Banco* (bench) at which the money-lenders, Jews and Romans, transacted their business in the market-place. In its original sense, which is still used today, the word means a pile or accumulation, as a sand bank, or bank of a river. The term has undergone an evolution in its meaning, and

whereas the Bank of Venice, one of the earliest banks, was originated to make a public loan (also true of the Bank of England, created in 1694), and the Bank of Amsterdam (created in 1609), was a bank of deposit only, and banks of later periods were primarily banks of issue, in the modern sense the main purpose of banking is to supply credit in some form or other.

The New York State banking law defines a bank as "any domestic moneyed corporation, other than a trust company, authorized to discount and negotiate promissory notes, drafts, bills of exchange and other evidences of debt; to receive deposits of money and commercial paper; to lend money on real or personal security; and to buy and sell gold and silver bullion, foreign coins or bills of exchange."

Modern banks may be classified according to their functions into six broad groups, *viz.*: (1) commercial banks (*e. g.*, national banks and state banks); (2) savings banks; (3) trust companies; (4) investment banks; (5) mortgage banks; and (6) bankers' banks (also known as *reserve banks* or central banks, *e. g.*, Federal Reserve banks).

Many modern banks, organized as National banks, state banks, or trust companies, and located in the large cities, are practically financial department stores and engage in all kinds of banking activities. A complete banking service comprehends the following functions: (1) receive demand deposits, and pay customers' checks drawn against them; (2) receive time deposits and pay interest thereon; (3) discount notes, acceptances and bills of exchange; (4) supply credit by making advances with or without security, by issuing letters of credit, and by accepting bills drawn thereunder; (5) transfer money at home and abroad; (6) make collections and facilitate exchanges; (7) issue circulating notes (restricted to Federal Reserve and National banks); (8) issue drafts, cashier's checks, and money orders, and certify checks; (9) furnish media of safe investment; (10) furnish safe-deposit vaults; (11) assume custodianship of securities and other valuables; (12) act in a fiduciary capacity for individuals and corporations; (13) invest in Government or other securities and act as fiscal agent for the Government, or any of its civil divisions; (14) buy and sell gold bullion, foreign coins, and deal in foreign exchange.

The laws of the United States and of the various states provide for the organization

of no less than nineteen distinct bank types, all of which are under the supervision and control of the Federal Reserve Board, Comptroller of the Currency, Postal Savings Committee, or the various State Banking Departments.

Six separate types of banks are created by the banking laws of the United States, viz.: National banks, Federal foreign banking corporations, Postal savings banks, Federal Reserve banks, Federal land banks (also known as Federal farm loan banks) and their component National farm loan associations, and Joint-Stock land bank associations.

Under the jurisdiction of the various State Banking Departments are the following bank types, viz.: State banks, Trust companies, Mortgage companies, Title Insurance companies, Savings banks, Building and Loan Associations, Safe Deposit companies, Industrial banks (Morris Plan banks), Private banks, Credit unions, Personal loan brokers and companies, and Land banks. In addition to the bank types created by law, and beyond the jurisdiction of the supervising bank authorities, are investment bankers, stock exchange brokers, note brokers, foreign exchange dealers, discount houses, and pawnbrokers, which are not usually subject to regulation other than that provided through licensing.

(See Bank of Deposit, Bank of Discount, Bank of Issue, Bank Organization, Building and Loan Association, Commercial Bank, Credit Union, Federal Land Bank, Federal Farm Loan System, Federal Reserve Bank, Federal Reserve System, Foreign Banking Corporations, Investment Company, Joint-Stock Land Banks, Land Bank, Mortgage Company, National Bank, National Banking System, National Farm Loan Associations, Personal Loan Company, Postal Savings Bank, Private Bank, Safe Deposit Company, Savings Banks, Title Insurance Company.)

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For further Bibliography, see Federal Farm Loan System, Money, Credit, Foreign Exchange, Trust Companies, Investment, Speculation, Federal Reserve System.

### Bankable Paper

*Paper* (q. v.), the principal debtors or indorsers of which have a sufficiently high credit standing that a bank will readily discount it.

### Bank Acceptance

As defined by the Federal Reserve Board, "a draft or bill of exchange, whether pay-

able in United States or abroad and whether payable in dollars or some other money, of which the acceptor is a bank or trust company, or a firm, person, company or corporation engaged generally in the business of granting bankers' acceptance credits."

Bank acceptances are used in financing international trade and domestic transactions involving major staple commodities. They are practically a new type of credit instrument in the United States, and did not exist here before the Federal Reserve Act, Section 13 of which provides for their issuance. Bank acceptances hold a prominent place among credit instruments and constitute the highest form of commercial credit in which the credit risk has been practically eliminated, since the direct responsibility for their payment rests upon banks whose credit is widely known. Bank acceptances arise out of drafts drawn under letters of credit issued by the accepting bank. The bank substitutes its credit for that of its customer and accepts drafts drawn under letters of credit, provided they are in accordance with the terms thereof. The customer is required to place the bank in funds to meet the acceptance at its maturity. At a meeting of the leading banks of the important commercial centers in 1918, it was resolved that: "The accepting bank shall require from its clients that it be placed in funds to meet acceptances on the day of maturity either by (a) the deposit of clearing house funds one day prior to maturity, or (b) the deposit of cash or check on the Federal Reserve Bank of New York on the day of maturity, or (c) debit to the account of the bank's client on day of maturity against funds cleared on, or prior to, such date." (See Acceptance Credit, Letters of Credit, Limitations on Acceptance Credits.)

### Bank Account

Funds deposited in a bank. There are two principal types of bank account, commercial and savings. Commercial accounts represent demand deposits because they are subject to check and may be withdrawn immediately. Funds deposited in a savings account cannot be withdrawn by check, but only upon presentation of the pass book. Savings accounts represent time deposits. Savings banks usually may require at least 30 days notice of intention before funds may be withdrawn, but under ordinary conditions this right is not exercised. (See Demand Deposits, Deposits, Time Deposits.)

**Bank Accounting**

See Bank Bookkeeping, Bank Cost-Accounting.

**Bank Act**

See Bank of England.

**Bank Advertising**

See Publicity Department.

**Bank Apparatus**

See Bank Appliances.

**Bank Appliances**

A number of important mechanical appliances have been adopted by banking institutions in recent years to short-cut the great volume of clerical detail. The principal machines used in modern banking are as follows: adding machine, adding typewriter, addressing machine, annunciator, bookkeeping and billing machine, calculating machine, check cancellation machine, check indorsing machine, check protecting and writing machine, coupon cutter, dictaphone, automatic cashier, automatic coin counting and wrapping machine, automatic typewriter, envelope sealing machine, folding machine, letter opener, mailing machine, mimeograph, multi-graph, numbering machine, pencil sharpener, photostat, perforating machine, stamp affixing machine, tabulating machine, telautograph, time dating stamp, time lock, time recording machine, transit machine, typewriter.

**Bank Balance**

This term has two meanings:

(1) The amount standing to the credit of a depositor's account at a bank, representing the sum he is entitled to withdraw.

(2) The difference between the total debits and credits, whether against or in favor, of a bank at the clearing house, *i. e.*, a given bank's clearing house debit or credit balance.

**Bank Balance Sheet**

See Bank Statements.

**Bank Book**

Same as *Pass Book* (q. v.).

**Bank Bookkeeping**

Bookkeeping which in most respects follows the principles of bookkeeping in other lines of business, but differs in two important particulars: (1) transactions must be recorded as soon after their occurrence as possible; and (2) the bank should be able to determine its exact financial status and

results of operations at the close of each day's business.

A bank deals with cash and cash items. Most of its assets are quick or liquid assets which it endeavors to keep liquid in order that customers may make withdrawals at their pleasure. A bank is a huge accounting machine, an instrument by which its customers mutually settle their debts. In keeping financial accounts for its customers a bank is an important factor in insuring their solvency. If through an oversight in the bookkeeping department a customer's account shows an overdraft when as a matter of fact funds have been received which would create a credit balance, but are not yet posted, the customer's position may be seriously jeopardized. Since a bank must handle a great volume of checks and other cash items affecting many separate accounts, some scheme must be provided for securing the posting of transactions to the ledgers with utmost dispatch and accuracy.

The Comptroller of the Currency and many of the state banking departments require banks to secure a daily trial balance. Even without this requirement ordinary prudence would dictate a daily balancing of books. Because of the sheer volume of transactions a bank is called upon to administer, it is essential that each separate department and the bank as a whole prove its work daily, so that in case errors occur they can be ferreted out immediately, and before matters become further involved. Furthermore, a proof is essential in determining the bank's condition as to solvency, liquidity and profits. To protect its customers whose solvency partly depends upon the solvency of their bank it is necessary for a bank to determine its financial condition at the close of each day's business.

The booking or accounting system of a bank varies according to its type, size and kind of service performed, but most of its books and many of its operations are common to all. The bookkeeping work of a bank may be divided into (1) preparation of the original entry records in the various operating departments; (2) preparation and sortation of posting mediums for posting to depositors' and general ledgers; (3) preparation of daily department proofs of original entry records; (4) keeping the accounts of depositors in the depositors' or "individual" ledgers; (5) keeping the general accounts (general ledger and statement book), and (6) keeping the various departmental subsidiary ledgers, *e. g.*, liability ledger, bond ledger, etc.

A bank's bookkeeping records may be classified in four broad divisions: (1) exclusively corporate records; (2) general accounting records; (3) depositors' or "individual" ledgers; (4) department records. The exclusively corporate records consist of (a) stock journal, or stock certificate book, from which shares of stock are issued, and which shows the evidence of ownership of the shares; (b) stock transfer journal which is a chronological record of the transfers of shares; (c) stock ledger which shows the number of shares owned and held by each stockholder; (d) directors' minute book which contains the minutes of directors' meetings and their resolutions, which often affect the accounting records; (e) articles of incorporation which contain the authorization for the bank's existence and affect the records with respect to capital stock; (f) dividend book which contains a record of dividend disbursements and the names and addresses of stockholders entitled to receive dividends. The general accounting records consist of (1) general ledger; (2) statement book, and (3) general expense book. The department records consist of various subsidiary ledgers, ticklers and other facilitating records.

The following is a list of the more important bookkeeping records especially applicable to a commercial bank:

Acceptance Liability Ledger.  
 Acceptance Register.  
 Acceptance Maturity Tickler.  
 Acceptance Ledger.  
 Accounts Opened and Closed Record.  
 Advice Book.  
 Bank Note Register.  
 Bill Ledger (Book).  
 Bill Register.  
 Bill Maturity Tickler.  
 Bond Classification Record.  
 Bond Earnings Record.  
 Bond Journal.  
 Bond Ledger.  
 Bond Maturity Tickler.  
 Branches Ledger.  
 Cash Book.  
 Cashier's Check Register.  
 Certificate of Deposit Register.  
 Certified Checks Register.  
 Collection Ledger.  
 Commission Record.  
 Coupon Check Register.  
 Coupon Ledger.  
 Customers' Securities Control.  
 Depositors' Ledger.  
 Discount Ledger.

Discount Maturity Tickler.  
 Discount Register.  
 Dividend Book.  
 Expense Book.  
 Exchange Record.  
 Federal Reserve Ledger.  
 Federal Reserve Register.  
 General Ledger.  
 Indexes.  
 Individual Ledgers.  
 Journal.  
 Letters of Credit Register.  
 Loan Ledger.  
 Loan Register.  
 Minute Book.  
 Mortgage Ledger.  
 Mortgage Register.  
 Note Tickler.  
 Offerings Book.  
 Overdue Bills Book.  
 Real Estate Record.  
 Safe Deposit Register.  
 Securities Ledger.  
 Securities Register.  
 Security Numbers Record.  
 Signature Records.  
 Stock Certificate Book.  
 Stock Ledger.  
 Stock Transfer Journal.  
 Time Deposits Ledger.  
 Time Loan Maturity Tickler.  
 Trust General Ledger.  
 Trust Securities Register.

(See Auditing Department, Bank Statements, Bookkeeping Department, General Bookkeeping Department, General Ledger, Statement Department.)

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#### Bank Charter

See Certificate of Incorporation.

#### Bank Charter Act

See Bank of England.

#### Bank Check

See Check.

#### Bank Clearings

Exchanges for the clearing house; checks and other items presented for collection through the clearing house by its members. Total bank clearings and balances for the



principal cities having clearing house associations are published daily in the local newspapers. The principal financial magazines compile weekly, monthly and annual bank clearings for the principal cities and the United States as a whole, as a barometer of business activity. (See *Business Barometers*, *Clearing House Statement*.)

### Bank Commissioner

A title given in some states to the chief of the *State Banking Department* (q. v.). In other states this official is known as Superintendent of Banks.

### Bank Cost-Accounting

Although usually associated with manufacturing businesses, cost-accounting is equally adaptable to banking; in fact, it is essential if proper charges for various services are to be made, and to determine whether given accounts are profitable or unprofitable. While cost-accounting in banks is usually taken as synonymous with account analysis, its scope is more extended and includes the determination of costs by departments, by classes of services, unit services and deposit accounts. In a well-managed bank, moreover, the cost-accounting system and budget system will serve as mutual checks on one another.

Various systems or methods of determining the cost of carrying depositors' accounts have been devised. A complete exposition of these methods is impossible in a work of this sort, but the general principles may be outlined. The object of account analysis is to apportion the expenses of the bank to each account on some equitable basis, and to credit to each account its proportion of earnings. The earnings attributable to an account may be accurately ascertained without much difficulty, and consist of the interest at the current lending rate upon the usable balance, determined by subtracting from the average balance the amount of the average float (items in process of collection), and the required legal reserve. The determination of the expenses assignable to each account, however, presents some difficulties.

In the short method of analyzing depositors' accounts recommended by the Federal Reserve Bank of New York, the expense of carrying account may be divided into three parts, depending upon (1) its activity (number of items per month), (2) its size (cash balance), and (3) the number of accounts in the bank. The activity charge is a direct charge assignable to an account because

of the number of items handled for it, being twice as much for an account drawing 200 checks as for one drawing 100 checks. The size charge is a maintenance charge, which varies according to the size of the balance, on the principle that the larger account costs more in the way of stationery, clerical attention and service. The number charge is an overhead charge which is constant for all accounts, and includes such items as rent, officers' salaries, etc., apportioned according to the sum of the first two charges.

The value of an account is, therefore, determined by subtracting from the interest earned on the usable balance (see above) the interest allowed on the deposit, and the cost of operation, consisting of an activity, size and number (or overhead) charge.

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### Bank Credit

Credit extended by a bank to its customers with or without collateral, as distinguished from commercial credit, personal credit, investment credit, public credit, etc. (See *Credit*.)

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### Bank Credit Currency

See *Credit Currency*.

### Bank Deposit

See *Deposits*.

### Bank Directors

See *Directors*.

### Bank Discount

See *Discount*.

### Bank Draft

A sight or demand draft drawn by one bank as drawer upon another bank as drawee. (See *Draft*.)

## Bank Employees

See Bank Occupations.

## Banker

A term loosely applied to a person engaged in the banking business; one who lends funds belonging to others, as distinguished from one who lends his own money, *i. e.*, a capitalist. The banking laws of many states reserve the term "banker" to designate private banks as distinguished from incorporated banks, at the same time restricting the term "bank" to incorporated banks. The term is often improperly used as the equivalent of the term *Financier* (q. v.), and to include investment bankers, stock exchange brokers, syndicate managers, etc. (See Individual Banker, Private Banks.)

## Banker's Acceptance

See Bank Acceptance.

## Bankers' Associations

Associations of banks, bankers, trust companies, etc., formed to promote their general welfare and usefulness, to secure favorable legislation, to disseminate useful information on banking practices and customs, and to secure mutual protection against crime. The most important of these associations is the *American Bankers' Association* (q. v.), which includes a division each for national banks, state banks, stock savings banks and trust companies. Other bankers' associations of national scope and influence are the Investment Bankers' Association of America, National Association of Mutual Savings Banks, *Farm Mortgage Bankers' Association of America* (q. v) and Morris Plan Bankers' Association.

Besides the bankers' associations of national scope, practically every state has a separate bankers' association, *e. g.*, New York Bankers' Association, Ohio Bankers' Association, Wisconsin Bankers' Association, etc. Many of these state-wide associations publish a sectional bank magazine under their auspices. (See Financial Magazines.) In several states mutual savings banks and investment bankers have organized separate state associations.

## Banker's Bank

A bank located in a large city and which specializes in transactions with other smaller banks. A term also applied to a *Central Bank* (q. v.), such as the Federal Reserve banks or the Bank of England.

## Banker's Bill

A bill of exchange drawn by a bank in one country upon a bank in another country, usually against credit balances and without supporting documents, as distinguished from a commercial bill. (See Bill of Exchange.)

## Banker's Draft

A check or bill drawn by one bank against balances deposited with another. The term usually applies to domestic transactions. (See Draft.)

## Bank Examination

An inspection of the financial condition of a bank, initiated by the bank itself or conducted by legally constituted authorities, to assure the depositors, stockholders and the public that the affairs of the bank are being conservatively and efficiently managed. Bank examinations may be classified as external and internal. The former are compulsory, and are conducted by agencies created by law for that purpose, and the latter by the bank's own auditing department, or by public accountants at the request of the bank.

National banks are subject to two examinations a year by national bank examiners, acting under the supervision of the Comptroller of the Currency. State banks are also usually subject to two examinations a year, acting under the supervision of the state banking department. The New York state banking laws also require periodic examinations to be made by the board of directors, but they are allowed to engage public accountants to conduct the examination in their stead. The purpose of directors' examinations is to place the board on record as having intimate knowledge of the affairs of the institution which they direct. Banks which are members of a clearing house association are often subject to examination by such association. Clearing house examinations are not required by law, but are instituted as a matter of conservative banking practice.

Federal Reserve banks are subject to examination by the Federal Reserve Board which maintains a "Division of Examination" and a "Chief Federal Reserve Examiner." The Federal Reserve Board also has power to examine member banks. The Federal Reserve Act provides that any Federal Reserve bank may, with the approval of the Federal Reserve Board, examine any member bank within its district. The trust department of a national bank is subject to examination by the banking department of the state in which it is located.

The specific purposes of an external bank examination are to ascertain (1) whether the bank is solvent as shown by a verification of its assets and liabilities; (2) whether the management is conforming to the restrictions imposed by law; and (3) whether the bank, although conforming to the legal restrictions, is adopting policies which may lead to embarrassment or disaster at a future date.

An external bank examination is not a complete audit. Bank examiners do not set up a complete financial statement which purports to be a true and correct exhibit of the bank's financial condition. Neither do they certify that no defalcations have occurred. After the examination is completed, a comprehensive report is prepared and submitted in writing by the chief bank examiner to the board of directors. The board of directors is required to adopt the recommendations of the bank examiner who may, for example, require writing off all overdue notes, or depreciation on investments, and even that more capital be furnished to make good losses sustained, even though a deficit has not occurred. Improvident policies and loose accounting methods are criticized, and recommendations made for their improvement. The report of a national bank examiner is required to be read at the next succeeding meeting of the board of directors, and noted in the minutes.

Internal examinations conducted by a bank's own auditing department may be classified as continuous and spot. The general control of the bookkeeping and accounting routine, summarization of department proofs and reconciliation of customers' accounts may be regarded as a continuous audit. These functions are performed daily in order to secure protection against theft or defalcation and to prevent clerical errors.

Spot examinations are irregular, the element of surprise being their chief characteristic. The auditors make their appearance in a certain department of the bank and verify the assets under custody without being announced. It is calculated that a spot audit tends to assure constant alertness in the clerical force.

(See Audit, Bank Examiners, Comptroller of the Currency, Directors' Examinations, State Banking Department, Visitorial Powers.)

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#### Bank Examiners

Persons appointed pursuant to the national banking laws, Federal Reserve Act, and various state banking laws to examine the affairs of banks and banking institutions within their jurisdiction.

National bank examiners are appointed by the Comptroller of the Currency with the approval of the Secretary of the Treasury. Appointments are usually made from a list of eligibles secured through non-competitive examinations held at the office of the Comptroller of the Currency in Washington from time to time as the needs of the service require. The examination covers the following subjects: general banking practices, accounting, negotiable instruments, commercial and banking law, and the National Bank and Federal Reserve Acts. An examiner should also understand the principles of auditing and the chief avenues of fraud.

The salaries of national bank examiners are fixed by the Federal Reserve Board upon the recommendation of the Comptroller of the Currency. National bank examiners have power to examine thoroughly all the affairs of the banks undergoing examination, to administer oaths, and to examine any officers or employees thereof. Examiners are required to make a full and detailed report of the condition of each bank examined to the Comptroller of the Currency. The recommendations contained in this report are submitted to the directors of the bank from the office of the Comptroller of the Currency.

National bank examiners are forbidden to disclose the names of borrowers or the collateral against a bank's loans, and banks are prohibited from making loans or granting gratuities to bank examiners.

The regulations applying to national bank examiners apply in a general way to state bank examiners. Under the banking laws of the state of New York, bank examiners are appointed, their salaries fixed and duties assigned, by the Superintendent of Banks. They are required to take the constitutional



oath of office, and may be retired from service upon half pay after twenty years' service and mental or physical incapacity. (See Bank Examination, Federal Reserve Act, Sec. 21, 22.)

### Bank Exchanges

Same as exchanges, or *Exchanges for Clearing House* (q. v.).

### Bank Failures

See Failures.

### Bank Holidays

The holidays recognized by the banks in New York City, and by the New York Stock Exchange, are as follows: New Year's Day (January 1), Lincoln's Birthday (February 12), Washington's Birthday (February 22), Memorial Day (May 30), Independence Day (July 4), Labor Day (first Monday in September), Columbus Day (October 12), General Election Day (first Tuesday after first Monday in November), Thanksgiving Day (last Thursday in November), Christmas Day (December 25).

### Bank Indorsement

See Bank Stamp.

### Banking

See subjects beginning with Bank, also American Bankers' Association, Bank, Building and Loan Association, Credit Union, Federal Land Bank, Federal Reserve Bank, Federal Reserve System, Foreign Banking Corporations, Investment Company, Joint-Stock Land Banks, Land Banks, Morris Plan Company, Mortgage Company, National Bank, National Banking System, National Farm Loan Association, Personal Loan Company, Postal Savings Bank, Private Banks, Safe Deposit Company, Savings Banks, State Bank, Title Insurance Company, Trust Company.

For Bibliography on Banking, see Bank.

### Banking Department

See State Banking Department.

### Banking House

The premises or building in which a bank conducts its business. The banking house and fixtures and appliances are the only fixed assets a bank is permitted to own. A national bank, and in most states, state banks, may hold real estate other than the banking house only to protect itself from loss,

*c. g.*, foreclosure of a mortgage loan, but national banks may not hold such property longer than five years without permission from the Comptroller of the Currency.

Very often the banking house is carried on the balance sheet at a nominal value, *i. e.*, at a value much below the market value.

### Banking Power

The lending or investing power of a bank; the credit strength of a bank. The term may also be applied to the combined lending power of all the banks in a city or nation. The measure of banking power is the combined capital stock, surplus, undivided profits and deposits.

### Banking Support

An expression to denote the purchase of securities in sufficient volume to stabilize the market after a break in prices, by large and influential banking and financial interests. (See Support.)

### Banking Syndicate

A group of banks associated together with one as manager for the purpose of underwriting and floating an issue of securities. (See Syndicate.)

### Bank Law

A general term to designate the statutes of the United States and of the various states under which banking institutions are organized, operated and regulated. It also refers to the great body of court decisions concerning negotiable instruments, bank forms, documents, etc., and to Federal Reserve Board regulations, rulings of the Comptroller of the Currency, and Treasury Department, and to the regulations of the various State Banking Departments. (See Federal Farm Loan Act, Federal Farm Board Rulings and Regulations, Federal Reserve Act, Federal Reserve Board Regulations, Financial Chronology, National Bank Act, Negotiable Instruments Law.)

### Bank Magazines

See Financial Magazines.

### Bank Money Order

A form of money order issued and sold by banks, as distinguished from postal and express money orders. The issuance of bank money orders is confined to large banks whose credit is well known, and whose money orders are, therefore, widely accepted. They are practically a modified form

of cashier's check, and unlike postal money orders may be indorsed any number of times. Their cost is practically equivalent to postal and express money orders. (See Express Company Money Orders, Money Orders.)

### Bank Note

A bank's own promise to pay to bearer upon demand, issued under the banking laws of the United States, and intended to be used as money. Bank notes are often referred to as circulating notes, or circulation. The privilege of note issue in the United States is restricted to Federal Reserve and National banks. The former is authorized to issue *Federal Reserve Notes* (q. v.) and *Federal Reserve Bank Notes* (q. v.); the latter to issue *National Bank Notes* (q. v.).

### Bank Occupations

The principal occupations in a commercial bank are as follows: accountant, adding machine operator, advice clerk, assistant cashier, auditor, bill clerk, bond clerk, bookkeeper, cashier, certifications clerk, check-desk clerk, chief clerk, clearing-house settlement clerk, collateral clerk, collection clerk, commercial credits clerk, comptroller, coupon clerk, coupon collection clerk, coupon collection teller, coupon teller, credit analyst, credit correspondent, credit investigator, credit man, custodianship teller, customers' securities clerk, dictaphone operator, discount clerk, discount teller, draft clerk, fanfold machine operator, file clerk, foreign currency teller, foreign exchange bookkeeper, foreign exchange clerk, foreign exchange trader, general bookkeeper, guard, junior clerk, ledger clerk, letter of credit clerk, loan clerk, mail teller, messenger, money clerk, night watchman, note teller, office boy (page), paying teller, personnel officer, secretary, securities clerk, senior clerk, shipping clerk, signature clerk, statement machine clerk, statistician, stenographer, stenotypist, stockroom clerk, stop-payment clerk, substitution clerk, transit clerk, translator, trust officer, typist, vault attendant, voucher clerk.

### Bank of Circulation

Same as *Bank of Issue* (q. v.).

### Bank of Deposit

Strictly any bank which receives deposits, which would include practically every banking type. In ordinary usage, however, it applies to banks which receive deposits subject to check, and therefore to commercial banks, *e. g.*, national and state banks. (See *Bank*.)

### Bank of Discount

A bank which discounts notes, acceptances, and bills of exchange, and otherwise lends its credit, as distinguished from a savings bank, mortgage company, etc. All commercial banks are banks of discount, which would include National banks, state banks, and trust companies (in most states). Federal Reserve banks also come under this designation. (See *Bank*.)

### Bank of England

The central banking institution of England with the main office in London, and eleven branches located in the principal cities of England. Its full official title is "The Governor and Company of the Bank of England," and it is sometimes called, colloquially, "Old Lady of Threadneedle Street." It is primarily a bankers' bank, and occupies the same relation to the English banking system as the Federal Reserve banks to the banking system of the United States.

The original charter was granted in 1694, but was modified in 1844 by what is known as the "Bank Charter Act," or briefly as "Bank Act," which established the Bank of England on its present basis. Its original capital was £1,200,000, as compared with a capital of £17,800,000 in 1921. It is a private bank, owned and controlled by its stockholders, with practically no government supervision. The management rests with a board consisting of a governor, deputy-governor and twenty-four directors. The stockholders elect the directors, and the latter elect the governor and deputy-governor, both of which hold office for two years, the latter becoming governor upon retirement of the former. Ex-governors constitute an advisory council to the governor, and are known as the Board of Treasury. The Bank Charter Act expressly stipulates that no banker may become a director. The directors meet each Thursday.

The English banking laws do not require the Bank of England or the joint-stock or private banks of the country to maintain prescribed reserves against deposits. This amount is left to the discretion of the officers. The joint-stock and private banks maintain sufficient cash in their own vaults to meet current needs, but keep the larger part of their reserve as a balance in the Bank of England, which, therefore, holds the ultimate reserve of the country. This reserve is maintained in gold, and by concentration in one institution, the gold reserves are mobilized so as to form the basis for a

high degree of credit expansion. In times of commercial activity, banks sell their notes and bills to the Bank of England through the open market. It is by this method rather than through the rediscount process, which characterizes the American system, that credit elasticity is achieved. The commercial banks usually keep from 10 to 20 per cent. reserve, while the Bank of England itself rarely permits its reserve to fall below 33 per cent. Under normal conditions the reserve ranges between 40 and 50 per cent.

Upon the Bank of England also devolves very largely the responsibility of acting as custodian of the gold reservoir for international banking. London is the world's financial center, and a considerable portion of its banking power is available for the financing of international transactions. Bills of exchange on London may be discounted almost anywhere in the world, because London is equipped to honor sterling bills in gold practically without limit. An adequate gold reserve is insured by means of controlling the discount rate, or "bank rate," as it is known in England. When the gold reserve is drawn upon heavily, the bank rate is raised in order to discourage further borrowing, and when the reserve rises, the rate is lowered. If the advance in the bank rate does not restrict borrowing and counteract the outflow of gold, the Bank of England borrows in the open market, and by reducing the supply of bills, forces money rates up.

The Bank Charter Act draws a sharp line of demarcation between the two departments of the Bank of England, viz.: "Banking Department" and "Issue Department." Except for the requirement that a weekly *Bank Return* (q. v.) be prepared and published, the conduct of the "Banking Department" is left largely to the discretion of the governors, but the activities of the "Issue Department" were rigidly prescribed. The object of this provision is to insure against note inflation. The Bank of England has a practical monopoly of the note-issuing privilege, since no other bank organized since 1844 may issue notes. Of the banks in existence before 1844, only those conducting business 65 miles from London retained the right to issue notes. The Bank of England's note issue secured by Government debts is restricted to £14,000,000. For notes issued in excess of this amount, gold coins or gold or silver bullion must be deposited in the Issue Department in equal amount, *i. e.*, notes in excess of £14,000,000 are secured by a full specie reserve. Since the Bank

Charter Act gave the Bank of England the right to issue notes against securities up to two-thirds of the lapsed issues of country banks, the amount of notes issued against securities as distinguished from those issued against a full specie reserved increased to £18,450,000 in 1921.

To provide greater elasticity in the note issues during times of credit expansion, or in an emergency, the Bank Charter Act may be suspended. This enables the bank to increase its note issue without depositing in the Issue Department the equivalent in specie. For the purpose of alleviating crises, the Bank Charter Act has been suspended three times, in 1847, 1857 and 1866. Power to suspend the act was granted in 1914, but the authority was not acted upon.

The Bank of England is the fiscal agent of the British Government. It receives and disburses the government's revenues, manages the national debt and pays the interest thereon, issues exchequer and treasury bills, and makes advances to the government.

The prestige and influence of the Bank of England is probably greater than any other bank in the world, due partly to its age, size and financial strength, but chiefly to its position in the world money and discount markets, its influence in controlling international gold movements, and to its long record of capable administration of the finances of England.

By way of summarization, the Bank of England is a banker to joint-stock and private banks; is fiscal agent to the government; has a semi-monopoly of note issues; maintains the gold reserve of the country by custodianship of reserves of joint-stock and private banks; controls the money rate; engages in open market transactions; and provides emergency currency. (See Bank of England Statement, Bank Rate, Bank Return, Joint-Stock Banks.)

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#### Bank of England Return

See Bank of England Statement.



**Bank of England Statement**

A statement of condition, or "Bank Return" as it is known in England, which the Bank Charter Act requires the Bank of England to publish weekly in the Lon-

don Gazette. This statement appears Thursday morning of each week, simultaneously with the *Bank Rate* (q. v.).

The following is a specimen statement of the Bank of England:

## BANK OF ENGLAND RETURN

May 31, 1922.

*Issue Department*

1. Notes issued .....	£145,508,465	2. Government debt .....	11,015,100
		3. Other securities .....	7,434,900
		4. Gold coin and bullion.....	127,058,465
		5. Silver bullion .....	
	£145,508,465		£145,508,465

*Banking Department*

6. Capital .....	£14,553,000	11. Government securities .....	47,997,913
7. Rest .....	3,179,828	12. Other securities .....	75,358,923
8. Public deposits* .....	28,740,945	13. Notes .....	22,792,605
9. Other deposits .....	101,480,533	14. Gold and silver coin.....	1,822,544
10. Seven day and other bills....	17,679		
	£147,971,985		£147,971,985

Proportion of reserve to liabilities 18.90 per cent.

\* Including exchequer, savings banks, commissioners of national debt, and dividend accounts.

## EXPLANATION

No. 1. Circulating notes of the Bank of England. Note that £22,792,605 remain in the bank's possession in the banking department, leaving the active bank note circulation at £122,715,860.

No. 2. Perpetual advance to the Government by the bank, against which the latter is permitted to issue circulating notes.

No. 3. Securities taken over from banks of issue prior to the Bank Charter Act of 1844, and against which circulating notes may be issued.

No. 4. This amount is precisely equal to the difference between the notes issued, and the sum of "Government Debt" and "Other Securities." The Bank Charter Act requires that notes not secured by these two items, representing a total of £18,450,000, must be covered by an equal amount of gold.

No. 5. No silver bullion is carried by the Issue Department.

No. 6. Capital stock.

No. 7. Surplus and undivided profits,

which are never permitted to fall below £3,000,000, any amount in excess being available for dividends.

No. 8. Deposits of Government funds. See footnote.

No. 9. Deposits of joint-stock and private banks, and of firms and individuals.

No. 10. Remittance drafts, also known as bank post bills.

No. 11. Obligations of the British Government owned or pledged.

No. 12. Foreign government bonds, railroad debentures, high-grade bills of exchange, and other negotiable instruments.

No. 13. Bank of England notes on hand. See No. 1.

No. 14. The reserve held against deposits. The ratio of this amount to deposits is an indication of the credit conditions of the country and is comparable with the Federal Reserve ratio of reserves to deposit liabilities in this country. The amount of reserve is subject to variation by domestic and foreign demand for gold. (See Bank of England.)

**Bank Officers**

See Auditor, Bank Organization, Cashier, Comptroller, Trust Officer.

**Bank of France**

The central banking institution of France, established in 1800 with a capital of 30,000,-

000 francs by Napoleon Bonaparte, then first consul. Its head office is located in Paris and it is required to have at least one branch in each department of the republic. Numerous smaller auxiliary branch offices are located in all the principal cities and towns.

The Bank of France is a private bank, owned by its shareholders, but subject to the control of the Government. The management rests in the governor and two deputy-governors appointed practically for life by the President, and a council of 15 regents, and three censeurs (auditors) chosen by the stockholders.

The exclusive right of note issue was conferred upon the Bank of France in 1848. On account of the undeveloped use of the check, the notes of the Bank of France are the chief medium of exchange for both large and small business transactions. This necessitates a large emission of bank note currency which, in normal times, is from six to seven times the amount of deposits. The maximum note issue is fixed by law and increased as required by extending the limit prior to reaching the maximum. Notes are emitted under the direction of the council of regents. No specific reserve is required for either notes or deposits and there is no specific pledge of collateral for the redemption of notes, which rest wholly upon the general assets and credit of the bank. Under normal conditions the specie reserve, consisting of both gold and silver, is high, and ranges between 60 and 75 per cent. of the total liabilities. Bank notes are legal tender as long as specie payments are maintained. Legally, the Bank may, and in practice does, protect its gold reserve when the international balance of trade is adverse by redeeming its notes in silver coins (which are legal tender), or compelling customers to pay a premium for gold, but this is denied by French writers.

Like the other central banks of Europe the Bank of France does a large commercial discount and government security business. It not only discounts paper owned by smaller banks, but that of business corporations and individuals, provided the paper has two signatures, or two signatures and specified collateral. The Bank of France is fiscal agent for the government and manages the public debt in much the same way as the Bank of England manages the debt of that country.

The following is a statement of the Bank of France as of May 4, 1922:

ASSETS		Francs
Cash holdings		
Gold .....	3,578,735,877	
Silver .....	282,871,670	5,809,974,604
Foreign investments and hold- ings .....		629,696,964
Items due yesterday and col- lectible today .....		4,303,661
Bills discounted (Paris).....		1,339,089,041
Bills discounted (branches)....		1,615,441,701
Bills renewed .....		40,318,253
Advances against coin and bullion (Paris) .....		12,874,000
Advances against coin and bullion (branches) .....		12,874,000
Advances against securities (Paris) .....		439,150,553
Advances against securities (branches) .....		1,815,025,897
Advances to the Government....		23,000,000,000
French treasury bonds dis- counted for advances to for- eign governments .....		4,210,000,000
Rentes in reserve.....		12,980,750
Rentes free and unpledged.....		129,717,308
Rentes pledged .....		100,000,000
Banking house and equipment (Paris) .....		4,000,000
Real estate and equipment (branches) .....		60,550,797
Employed as a special reserve		8,407,438
Expenses of administration.....		30,139,330
Miscellaneous .....		1,835,161,851
Total .....		41,096,833,154

LIABILITIES		Francs
Capital .....		182,500,500
Profits in addition to capital....		38,105,294
Free reserve .....		22,105,750
Fixed reserve .....		4,000,000
Special reserve .....		8,407,444
Amortization account .....		830,073,275
Amortization interest account		8,824,696
Bearer notes in circulation.....		36,178,276,585
Order notes in circulation.....		868,015
French Treasury deposits.....		15,940,394
Current deposits (Paris).....		1,383,741,741
Current deposits (branches)....		1,050,210,071
Unpaid dividends .....		4,039,457
Discounts and interest.....		74,320,309
Rediscounts of the last half year .....		13,081,887
Miscellaneous .....		1,282,338,232
Total .....		41,096,833,154

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**Bank of Germany**

The central banking institution of Germany, the full title of which is Imperial Bank of Germany, or Reichsbank. Its main office is located in Berlin, but a network of about 500 branches are distributed throughout the country. The Bank was created in 1875 by the acquisition of the Bank of Prussia, a Government institution organized in 1765. In 1913 the fully paid capital of the Bank of Germany was 185,000,000 marks.

The Bank of Germany is owned by private stockholders, but is largely controlled by the Government. The management rests in the president and board of directors known as the directorium; a curatorium, which according to the Act of 1875, were appointed for life by the Kaiser upon the recommendation of the federal council; and a stockholders' committee. The officers are considered Government officials and the directors are responsible to the Minister of Finance.

In time the Bank of Germany will have the exclusive right of note issue. Its notes, secured by the general assets of the Bank, and not by a specific pledge of collateral, are now legal tender and provide elastic currency. Before the war, a limit of 550,000,000 marks, called the *contingent circulation*, was placed on the uncovered notes. All notes were required to be secured by a cash reserve equal to one-third of the issue. Although in times of emergency this requirement may be waived, the Bank is required to pay a 5 per cent. tax on the surplus issue into the Government Treasury. In any event a cash reserve equal to one-third of the notes in circulation is required, the remainder being secured by bills or checks of maturity not longer than three months and having at least two indorsements.

The branches of the Bank of Germany are of several classes, and they are the means by which transfers are made among customers' deposit accounts. This is called the "giro system," which is a substitute for the English and American check system. The Bank of Germany is also a bank of discount and carries on extensive trans-

actions in Government bonds and precious metals. It discounts commercial paper having maturity of not more than three months and not less than two indorsements, and notes secured by prescribed collateral, especially German Government bonds. The discount rate is uniform at the head office and among the branches, and is under the control of the curatorium. The profits of the Bank are shared with the Government in a ratio fixed by law, and as fiscal agent for the Government it receives no compensation.

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**Bank of Issue**

A bank empowered with the note issuing privilege. (See Bank Note, Circulating Notes.)

**Bank of North America**

The oldest bank in the United States, located at Philadelphia, and chartered by the Continental Congress on May 26, 1781. It was the only charter granted by that body, but was made perpetual. The original capital was fixed at \$160,000, but this was shortly after increased. The bank was planned by Robert Morris, Superintendent of Finance of the Revolution, and began operations on January 7, 1782. Because some doubt was raised as to the right of Congress to charter a bank, it obtained a new, but not perpetual, charter from the state of Pennsylvania in 1784. This bank performed the functions of a commercial bank, made advances to the Government, and issued circulating notes redeemable in coin. It was a success, as demonstrated by the fact that after the Revolution it paid annual dividends of 14 per cent.

Under the Pennsylvania charter, which was renewed at intervals, the bank continued its operations, until it was granted a charter under the National Bank Act. It has since operated as a National bank, and by special dispensation, without a change in its original name.



### Bank of the United States

A bank known as the First Bank of the United States, chartered by Congress in 1791, and which began operations in December of that year with a capital of \$10,000,000, one-fifth of which was subscribed by the Government. The plans of the bank were outlined by Alexander Hamilton, then Secretary of the Treasury.

The bank was permitted to establish branches without limit, and eight were actually put into operation. The business of the branches was restricted to receiving deposits and discounting commercial paper. The head office was located in Philadelphia.

The note issue of the bank was limited to the amount of its capital stock, and no indebtedness could be carried in excess of its deposits. It made advances to the Government, and acted as its fiscal agent. It was dissolved through the expiration of its charter in 1811.

The Second Bank of the United States was established in 1816 through the efforts of President Madison with a capital of \$35,000,000, one-fifth of which was subscribed by the Government. It was organized and operated along the same lines as the First Bank of the United States, but its operations were not successful until 1819, when it became a strong institution, provided a sound circulating medium, and furnished the soundest banking system yet devised in the United States. Due to the antagonism of political interests sponsoring the "state banking system," the renewal of the charter was refused, and it was dissolved in 1836.

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### Bank Organization

The scheme or plan by which the various divisions, departments, sections, operating units, and individual jobs of a bank are co-ordinated and subordinated, authority defined, functions described, and responsibilities located for each officer and employee, to the end that the banking business may be properly controlled, and made to operate smoothly. The modern metropolitan bank performs numerous types of services, quite diverse in their nature, and which call for expert supervision. Usually these different branches of bank service are rendered better when administered by specialists, and in many banks separate divisions of service are

created, for the convenience of the public as well as from the viewpoint of internal administration, for the successful operation of which a separate officer, usually a vice-president, is responsible. To illustrate an ideal internal organization of a bank of approximately \$15,000,000 capital and surplus, an organization chart is presented.

A bank is owned by its stockholders, but this body is too large and unwieldy actively to manage its affairs. Control of the policies and management of the bank are therefore vested in the board of directors, elected by the stockholders, usually annually. This body is responsible to the stockholders for successful management, and to the government banking officials for the observance of the banking laws. The actual administration of the bank's operations, however, devolves upon the officers, who are appointed by the directors. The officers usually consist of a president, who in a small bank may be merely a figurehead who is primarily interested in another line of business, one or more vice-presidents, a cashier, who is usually equivalent to the general manager and whose duties are never delegated, and in large banks, a number of assistant cashiers, and perhaps a comptroller.

The larger divisions of a bank naturally fall into two classes: those serving the public and the facilitating or co-ordinating divisions. The Irving Bank-Columbia Trust Co. of New York City, which has organized its services along functional lines, calls its divisions of the first class, Deposit Division, Securities Division, Credit-Loan Division, Trust Division and Foreign Division; and divisions of the second class, Business Extension Division, Publicity Division, General Co-ordinating Division, and Auditing Division.

For the steps necessary in forming a new bank, see National Bank, State Bank, Trust Company. See Organization Chart on following page.

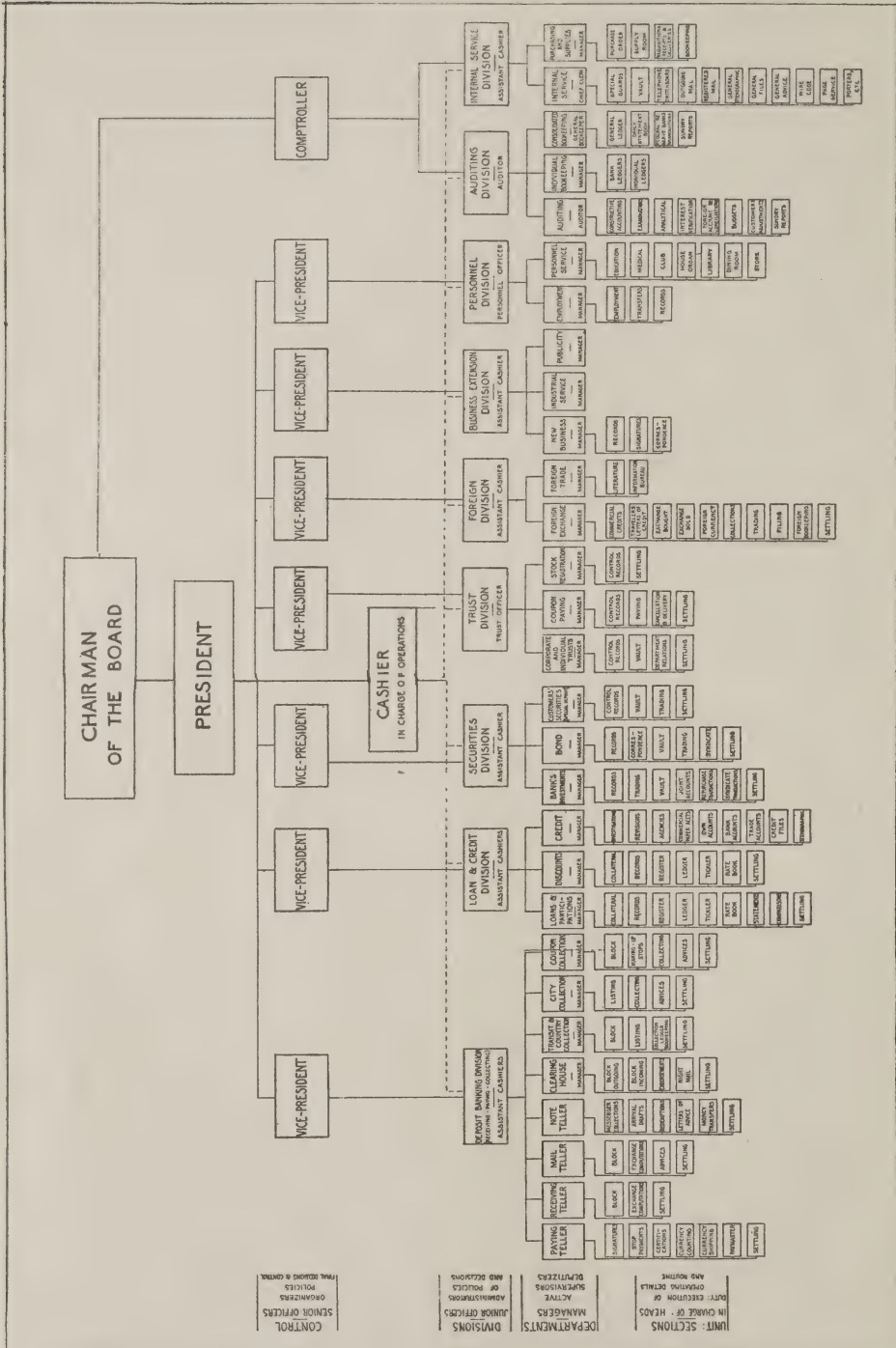
### Bank Paper

This term has two meanings:

- (1) *Bankable Paper* (q. v.).
- (2) Paper bearing the indorsement or acceptance of a bank, *e. g.*, a bank acceptance, or note rediscounted at a Federal Reserve bank.

### Bank Rate

A term applied to the rate of discount fixed by the Bank of England, or other central bank of Europe, as distinguished from the open market rate. The English bank



IDEAL ORGANIZATION CHART FOR A METROPOLITAN BANK WITH CAPITAL AND SURPLUS OF \$10,000,000 OR OVER.  
 Reproduced from an article by the author in *Administration*, March, 1921, by permission of Ronald Press Company.

rate is the discount rate prevailing at the Bank of England; the French bank rate the rate of discount at the Bank of France; the German bank rate the rate of discount at the Bank of Germany.

The equivalent to the bank rate in the United States is the Federal Reserve rate of rediscount which may vary in the separate Federal Reserve districts. (See Rediscount Rate.)

### Bank Reference

The name of a bank with which a concern has an account, given to another concern as a reference in order that its credit standing may be investigated. Before accepting new accounts banks usually investigate the character, ability and financial responsibility of their customers, and through constant contact are in a position to give an opinion to others concerning the standing of their customers.

### Bank Reserve

The proportion of cash or balances on deposit with other banks which a bank is required by law or by banking policy to keep against deposits. In the United States, reserve requirements are prescribed by law; in England, Canada, France and many other countries, the reserve is left to the discretion of the bank management. Member banks of the Federal Reserve System keep their reserves with the Federal Reserve bank of their district. State banks and trust companies keep their reserves in the form designated by state law. Generally this requirement consists of a certain percentage in the form of deposits with other banks. As a rule, state laws permit state banks and trust companies which are members of the Federal Reserve System to follow the provisions of the Federal Reserve Act in lieu of state requirements. (See Reserve.)

### Bank Return

A term given to a bank statement or balance sheet in England, *e. g.*, Bank of England Return. The term is sometimes applied in this country to denote the weekly statement of the New York Clearing House Banks, which is also known as "Individual Bank Return," "Statement of the Associated Banks," and as "Clearing House Statement." (See Bank of England Statement, Clearing House Statement.)

### Bankrupt

See Bankruptcy.

### Bankruptcy

A condition of *Insolvency* (q. v.) in which the property of the debtor or insolvent is taken possession of by a receiver or trustee in bankruptcy for distribution among the creditors under the direction of a bankruptcy court and through the operation of the National Bankruptcy Act of 1898. Bankruptcy is a court proceeding which may be brought at the instance of the insolvent himself, in which case it is called voluntary bankruptcy, or upon the petition of a creditor or creditors, in which case it is involuntary bankruptcy. To be adjudged an involuntary bankrupt the insolvent must have committed an "act of bankruptcy" (see National Bankruptcy Act, Sec. 3) and be indebted in the sum of not less than \$1,000.

The purposes of bankruptcy are (1) to permit an individual, partnership or corporation which is hopelessly insolvent to free itself of a debt which is unupportable by wiping out its excess of liabilities, and giving it a clean slate, provided there is an absence of fraud, and (2) to protect the creditors from further losses and to insure their participation to the fullest extent in the property of the bankrupt.

The benefits of the National Bankruptcy Act are open to all individuals except a wage-earner and farmer, to partnerships and corporations, except municipal, railroad, insurance and banking corporations.

Insolvent national banks come under the jurisdiction of the Comptroller of the Currency and insolvent state banks and trust companies, etc., under the jurisdiction of the various state banking departments. "Whenever the Comptroller shall become satisfied of the insolvency of the national banking association, he may, after due examination of its affairs, in either case, appoint a receiver, who shall proceed to close up such association, and enforce the personal liability of the shareholders." (Act June 30, 1876.) (See Insolvency, National Bankruptcy Act.)

### Bankruptcy Act

See National Bankruptcy Act.

### Bank Stamp

The indorsement of a bank placed on the reverse side of a check, note, acceptance or other negotiable instrument with a rubber stamp or an indorsement machine. Bank indorsement stamps are of two kinds, direct and general. In a direct indorsement the name of the payee bank is specifically stated, whereas a general indorsement bears



the words, "Pay to the Order of any Bank or Banker." The general indorsement is in more common use since it permits standardization, thus enabling the bank to dispatch large numbers of checks with the minimum of time and labor.

**Bank Statement**

A financial statement or *Balance Sheet* (q. v.) of a bank, exhibiting the nature and amount of its assets, liabilities and net worth. National banks are required to submit statements of condition upon call of the Comptroller of the Currency (see Comptroller's Call) at least five times a year at irregular intervals. Immediately following the call the statement is required to be published in the local newspapers for the benefit of the public. Similar requirements are imposed upon state banks and trust companies by the various state banking laws.

Inasmuch as banks hold the key to the credit structure of the nation, and the collapse of banking credit would bring ruin throughout industrial and commercial life, the solvency of the banks is of paramount public concern. The publication of bank statements helps the public, stockholders and depositors to determine; (1) the bank's indebtedness to depositors; (2) the bank's indebtedness to stockholders; (3) the quality and liquidity of the assets; (4) the ability of the bank to discharge its obligations to depositors; (5) the excess of assets over liabilities; and (6) amount of reserves.

In the following examples four types of bank statements are exhibited:

**STATEMENT OF THE CORN EXCHANGE BANK, NEW YORK**

(Advertised as a Bank Statement that any man or woman can understand)

**THE CORN EXCHANGE BANK  
NEW YORK**

*Statement of April 1, 1922*

The Bank Owes to Depositors.... \$199,887,343.47

A conservative banker always has this indebtedness in mind, and he arranges his assets so as to be able to meet any request for payment.

For this Purpose We Have:

1. Cash .....	\$32,015,625.80
(Gold, Bank Notes and Specie) and with legal depositories returnable on demand.	
2. Checks on Other Banks.....	16,019,898.18
Payable in one day.	
3. U. S. Government Securities .	70,968,159.96
4. Loans to Individuals and Corporations .....	31,673,392.93
Payable when we ask for them, secured by collateral of greater value than the loans.	

5. Bonds .....	23,240,780.32
Of railroads and other corporations, of first quality and easily salable.	
6. Loans .....	37,795,070.99
Payable in less than three months, on the average, largely secured by collateral.	
7. Bonds and Mortgages and Real Estate .....	2,762,830.68
8. Twenty-seven Banking Houses	4,076,255.02

The head office building stands on our books at \$1,675,000 and the twenty-six branch buildings at \$2,401,255.02, all located in New York City.

Total to Meet Indebtedness.....\$218,552,013.88

9. This Leaves a Surplus of....	\$18,664,670.41
Which becomes the property of the Stockholders after the debts to the depositors are paid, and is a guarantee fund upon which we solicit new deposits and retain those which have been lodged with us for many years.	

**CONDENSED STATEMENT OF A NATIONAL BANK  
ASSETS**

Cash, Clearing House Exchanges and Due from Federal Reserve Bank .....	\$94,587,479.82
Due from Banks....	21,911,335.79
Demand Loans .....	73,099,316.79
	\$189,598,132.40
Bills Discounted .....	96,749,303.83
Time Loans .....	87,261,674.03
United States and other Bonds to secure Circulation and United States Deposits .....	1,258,180.00
United States Government Securities	24,785,829.80
Bonds and Stocks .....	26,291,594.12
Due from United States Treasurer.	55,000.00
Customers' Liability account of Acceptances .....	8,930,446.54
Total .....	\$434,930,160.72

**LIABILITIES**

Capital Stock .....	\$20,000,000.00
Surplus .....	15,000,000.00
Undivided Profits ..	6,678,366.38
	\$41,678,366.38
Reserved for Taxes, Interest, etc....	1,508,590.88
Dividend Payable April 1, 1922....	800,000.00
Circulating Notes Outstanding.....	1,080,700.00
Deposits:	
Individuals .....	\$255,297,392.96
Banks .....	111,724,848.67
United States Government .....	6,310,000.00
	373,332,241.63
United States Government Securities and other Bonds Borrowed..	6,011,000.00
United States Treasury Notes-Rurchase Account .....	1,000,000.00
Acceptances Outstanding .....	9,519,261.83
Total .....	\$434,930,160.72

DETAILED STATEMENT OF AN ILLINOIS TRUST COMPANY

RESOURCES

Loans and discounts .....		\$32,590,934.40	
Overdrafts, unsecured .....			256.05
U. S. Bonds:			
U. S. bonds pledged to secure postal savings deposits (par value).....	\$	25,000.00	
U. S. bonds owned and unpledged .....		300.00	
Premium on U. S. bonds.....		629.13	
Total U. S. bonds .....			25,929.13
Bonds, Securities, etc:			
Bonds other than U. S. bonds pledged to secure U. S. deposits.....	\$	807,897.50	
Bonds other than U. S. bonds pledged to secure postal savings deposits .....		622,571.87	
Securities other than U. S. bonds (not including stocks) owned unpledged .....		6,040,510.43	
Total bonds, securities, etc. ....			7,470,979.80
Stocks, other than Federal Reserve Bank stock.....			499,712.69
Stock of Federal Reserve Bank (50 per cent of subscription).....			165,000.00
Value of banking house (if unencumbered) .....			775,000.00
Real estate owned other than banking house .....			28,141.75
Net amount due from National Banks in New York, Chicago and St. Louis .....	\$	5,960,684.31	
Net amount due from National Banks in other reserve cities.....		1,031,535.94	
Net amount due from banks and bankers .....			6,992,220.25
Exchanges for clearing house .....			1,346,645.57
Other checks on banks in the same city or town as reporting bank.....			1,895,376.70
Outside checks and other cash items .....	\$	918,938.98	
Fractional currency, nickels and cents .....		10,427.93	
Notes of National Banks .....			929,366.91
Federal Reserve notes .....			315,000.00
Lawful reserve in vault and with Federal Reserve Bank.....			7,000.00
Due from U. S. Treasurer .....			7,253,921.37
Customers' liability under Letters of Credit actually issued .....			36,000.00
Other assets, if any (due from Central Trust Company of Illinois as receiver or trustee)..			67,379.72
TOTAL .....			150,000.00
TOTAL .....			\$60,567,001.27

LIABILITIES

Capital stock paid in .....	\$	4,500,000.00	
Surplus fund .....			1,000,000.00
Undivided profits .....	\$	1,448,046.51	
Less current expenses, interest and taxes paid.....		614,666.92	
Amount reserved for taxes accrued .....			833,379.59
Amount reserved for all interest accrued .....			56,461.33
Amount reserved for contingent funds .....			93,607.17
Net amount due to National Banks in New York, Chicago and So. Louis .....	\$	90,363.48	
Net amount due to National Banks in other reserve cities .....		914,337.14	
Net amount due to banks and bankers (other than included in 30).....			1,004,700.62
Dividends unpaid .....			10,810,979.81
DEMAND DEPOSITS:			572.50
Individual deposits subject to check .....			29,209,211.76
Certificates of deposit due in less than 30 days .....			372,749.93
Certified checks .....			167,617.64
Cashier's checks outstanding .....			152,419.36
United States deposits .....			550,000.00
Postal savings deposits .....			522,405.00
Deposits requiring notice, but less than 30 days' .....			456,705.08
Total demand deposits, Items 33, 34, 35, 36, 37, 38 and 40.....			\$21,431,108.77
TIME DEPOSITS (payable after 30 days, or subject to 30 days' or more notice):			
Certificates of deposit .....			943,760.98
Other time deposits .....			9,815,180.75
Total of time deposits, Items 41 and 43.....	\$	10,758,941.73	
Customers' letters of credit drawn against .....			67,379.72
TOTAL .....			\$60,567,001.27

A SIMPLE STATEMENT OF A MODERATE-SIZED BANK WHICH IS A MEMBER OF THE FEDERAL RESERVE SYSTEM, EXPLAINED \*

RESOURCES

What the bank owns

Cash on Hand and Due From Banks. . \$432,462.69  
 Every bank must first consider its indebtedness to its depositors and so arrange its

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assets as to be able to pay the claims of depositors when due. Banks must therefore keep in their own vaults a sufficient amount of actual money to meet immediate demands. Such money is termed "Cash on Hand." Banks are also required by law to keep on deposit in other banks, subject to check, an amount of money equal to a certain percentage of their deposits. Such deposits in banks are termed "legal reserves." National banks and other members of the Federal Reserve System keep such deposits in the Federal Reserve banks of their respective districts.

Banks that are not members of the Federal Reserve System are required to keep their reserves partly in their own vaults and partly in banks officially designated as legal depositories. Such reserve deposits appear on the bank statement as "Due from Banks," and may exceed the amount required for reserve purposes, but should never be less than reserve requirements. "Due from Banks" also includes items sent to banks in other cities for collection and remittance.

Loans and Discounts .....\$1,562,339.29

The principal source of income of any bank is interest on its loans and discounts. "Loans" may be payable either on demand or on time and are usually secured by the pledge of collateral consisting of stocks, bonds, warehouse receipts, bills of lading, or other tangible property. The word "discounts" is usually applied to promissory notes, endorsed or unendorsed, where the amount of interest is deducted in advance. Loans and discounts of the type described may be readily converted into cash; under the Federal Reserve Act they are eligible for rediscount.

U. S. Bonds to Secure Circulation....\$25,000.00

This item appears only in the statements of National banks and Federal Reserve banks. It represents bonds owned by the bank deposited with the Treasurer of the United States as security for bank notes issued.

Redemption Fund .....\$1,250.00

National banks are required to keep on deposit with the Treasurer of the United States an amount equal to 5% of the bank's outstanding circulation. This fund, together with the preceding item, United States Bonds to Secure Circulation, are held by the Treasurer of the United States to protect the Government in its guaranty of the bank's notes outstanding.

Bonds and Other Securities .....\$660,575.08

The term "Bonds" in a bank statement refers particularly to the bonds of the United States Government, States and cities, and railroad and industrial corporations. Among such investments are bonds listed on stock exchanges, that are readily marketable. Any bank can obtain ready money by selling some of its bonds and thus meet any unexpected demands on the part of depositors. In view of the marketability of such bonds they are often termed the bank's "secondary reserve." The term "Other Securities" is applied to mortgages, long time notes, judgments, stocks that have been taken in payment of debts, and other items that cannot be classified under the head of "Loans and Discounts."

Banking House .....\$35,000.00

The particular kind of building that any bank should have depends upon circumstances. In the condensed statement under consideration "Furniture and Fixtures" are included as appurtenances of the bank building. Many banks, however, make a separate item of furniture and fixtures. In any case, however, bank premises should be included in resources at a low valuation, as they might not be salable.

Stock in Federal Reserve Bank.....\$9,000.00

The Federal Reserve Law provides that member banks may be called upon to invest an amount equal to six per cent of their own capital and surplus in the capital stock of the Federal Reserve Bank of their District. Only half of the investment thus provided, however, has thus far been required from member banks.

Total Resources .....\$2,725,627.06

#### LIABILITIES

##### *What the bank owes*

Capital Stock .....\$200,000.00

"Capital" is classified as a liability since it constitutes a sum to be paid back to the stockholders; in whole and with a profit if the bank is successful; in part, perhaps, if the bank is unsuccessful. The National Bank Act

and the laws of the different States of the Union further provide that bank stockholders shall be liable for their bank's debts not only in the amount already invested, but to an additional amount equal to the par value of the stock held. In other words, in the condensed statement under consideration, if the resources of the bank, in case of liquidation, should not be sufficient to pay the liabilities, each holder would have to contribute an amount equal to the par value of his stock.

Surplus Fund .....\$100,000.00

The "Surplus Fund" of a bank is not technically a part of its capital, but practically there is not much difference between capital and surplus. Surplus, however, has a different legal status from capital. The National Bank Act provides that the directors of any association "may semi-annually declare a dividend of so much of the net profits of the association as they shall judge expedient; but each association shall, before the declaration of a dividend, carry one-tenth part of its net profits of the preceding half year to its surplus fund until the same shall amount to twenty per cent of its capital stock." Many banks do not wait for the slow process of accumulating surplus, but when they start business the stockholders contribute a paid-up surplus.

Undivided Profits .....\$48,015.91

"Undivided profits" represent earnings of capital stock and surplus that have not as yet been credited to the surplus fund.

Demand and Time Deposits .....\$2,200,654.80

Deposits constitute the food on which banks live and thrive, and are primary obligations. They are classified as "demand deposits" and "time deposits." Demand deposits consist of (1) money and currency, (2) checks on the same bank, (3) checks on other banks in the same town, (4) checks on out-of-town banks credited as cash, (5) proceeds realized from discounts, (6) returns from checks and other instruments accepted for collection. Money and representatives of money deposited in a bank thereby become the absolute property of the bank. Depositors have simply the right to withdraw an equal amount of money. Time deposits include such certificates of deposit as are not payable on demand but are payable at a fixed date more than thirty days in the future, and also savings accounts and others on which thirty days or more advance notice of withdrawal may be demanded by the bank.

Rediscounts and Money Borrowed....\$150,000.00

In times of business activity banks often borrow from other banks to accommodate their own borrowers. This may be done (1) by rediscounting the promissory notes of customers with the Federal Reserve Bank or some other bank, or (2) by the issuance of the bank's own obligations usually secured by a deposit of collateral. When a bank thus obtains money or credit from some other bank it becomes a borrower similar to its own borrowers. The method of rediscount provided by the Federal Reserve System has done much to enlarge credit and thus extend business on a basis safe and sound.

Reserves for Taxes, Dividends, and

Interest .....\$1,956.35

It is the custom among banks to anticipate the payment of taxes, dividends and interest by setting aside amounts sufficient to meet such obligations. In this manner indebtedness accruing but not yet due is properly shown as a deduction from the total amount of resources.

Circulation .....\$25,000.00

This item applies only to National banks and Federal Reserve banks that issue Federal Reserve bank notes, and covers the circulation outstanding, any part of which must be redeemed upon presentation at the individual banks of issue or through the Treasurer of the United States.

Total Liabilities .....\$2,725,627.06



The term is also applied to the weekly report of the condition of the New York Clearing House banks, otherwise known as *Individual Bank Return* and as *Bank Return*. (See Clearing House Statement, General Ledger.)

### Bank Stock

The shares of bank and trust companies. Bank stock is of one class, *i. e.*, common. It is regarded as having investment qualities superior to common stocks of other corporations, and commands a price approximately equivalent to book value, due to the fact that the assets of a bank are practically all liquid, and have a liquidating value practically equivalent to book value. Since most banks carry a large surplus and undivided profits, their shares are quoted at high prices. The yield is considerably lower than for other stocks.

### Bargain Counter

A stock market expression to apply to securities offered for sale at prices below their *Intrinsic Value* (q. v.), especially during a panic, severe decline, or following a period of prolonged liquidation.

### Bargain Hunter

A stock market expression to apply to a speculator or investor who waits till securities are on the *Bargain Counter* (q. v.) before purchasing; one who defers the purchase of securities until he believes prices are at their extreme low range.

### Bar Gold

See Gold Bars.

### Barometers

See Business Barometers, Investment Barometers.

### Barometer Stocks

Standard, active stocks which lead the movement in other stocks, and indicate the general trend of the market; stocks the movements of which are followed sympathetically by other stocks. United States Steel common is regarded as a barometer for industrial stocks, and Union Pacific common for railroad stocks. (See Business Barometers, Speculative Cycle, Steel the Barometer of Trade, Swings.)

### Barratry

Damage, embezzlement or fraud committed by a vessel's master or crew against the

vessel or its cargo, resulting in loss to the owners. It is one of the long list of risks for which an ocean carrier is not liable as indicated in an ocean bill of lading. This risk must, therefore, be covered in the *Marine Insurance Certificate* (q. v.).

### Barren Money

Money which does not earn interest or other income.

### Bar Silver

See Silver.

### Barter

The direct exchange of commodities without the use of money, and without reference to price, *e. g.*, the exchange of four cows for one horse. Barter is a primitive and inconvenient means of trading. In indirect barter very often a standard commodity, *e. g.*, grain, cattle, tobacco, jewels, was used as a medium of exchange, or third commodity, to serve as a middle term between other commodities.

### Base Coins

Coins made of metals less valuable than gold or silver, *e. g.*, nickel and copper. The term is used in England to denote counterfeit coins. (See Minor Coins.)

### Basis

The annual rate of return on the money invested in a stock, or the rate of yield on a bond, if held to maturity; the effective interest rate on a security. (See Return, Yield.)

### Basis Grade

A term used with reference to cotton future contracts. Middling cotton is the basis grade, and may be delivered at the exact contract price. If other grades are delivered, the buyer must pay more or less, determined by the "differential" in price between the basis grade and the grade delivered. (See Cotton Futures, New York Cotton Exchange.)

### Basis Value

The value of a security considered as an investment, and, in the case of bonds as bearing a series of interest incomes, if held to maturity. Bonds are usually bought on a certain "basis," or "to yield — per cent." Other things being equal bond values

are compared by the effective interest rate, *i. e.*, basis value, or yield. (See Investment Value, Yield.)

### Batch System

See Block System.

### Bear

A term used among operators in various markets, and applied to a person who believes that security or commodity prices will decline, and who accordingly sells on that assumption, as distinguished from a *Bull* (q. v.). Bears are "those who sell stocks in the expectation that they can buy them later at lower prices . . . a bear who has sold is 'short' of the market."\* Bears are short sellers, *i. e.*, sell what they do not possess, in anticipation of a decline in price at which they can buy back, *i. e.*, cover, at a profit.

Bears are market pessimists who take the view that business conditions are growing worse. One may be a bear on a particular security without being bearish on the entire market. The public usually takes the bull side of the market, while the bear side is largely confined to professional operators. (See Short Sale.)

### Bear Account

Same as *Short Account* (q. v.).

### Bear Campaign

See Campaign.

### Bear Clique

See Clique.

### Bearer

"The person in possession of a bill or note which is payable to bearer." (Negotiable Instruments Law.) Holder; the person in possession of money, or a check, bill, note, or other instrument. Title to valuable papers can be transferred by delivery or by indorsement; in case of the former they are called bearer instruments, *e. g.*, money, coupon bonds, coupons, bearer checks, bearer bonds, etc.; in case of the latter they are negotiable only by indorsement or registration, or both, *e. g.*, checks, notes, bills of exchange, stock certificates, registered bonds, bills of lading, etc.

### Bearer Bonds

See Bearer.

### Bearer Instruments

See Bearer, Pay to Bearer.

### Bear Market

An expression used to describe the stock market when the influence of the bears is predominant, and the trend of prices is downward. It is more particularly applied to a market in which the downward tendency has been prolonged or is expected to be prolonged, with minor upward interruptions, over an extended period, say, a year or more. (See Bear.)

### Bear Pool

A pool organized to depress the price of a security or group of securities. (See Pool.)

### Bear Raid

A stock market expression to denote vigorous short selling by the bears, taking tactical advantage of the technical position of an overbought market to force prices down, and thus compel those who are long of stocks to sell at a loss, while they, the bears, cover at a profit.

### Below Par

A price quoted below the face of a security. (See Par.)

### Beneficiary

One in whose favor a trust operates, or in whose behalf a life insurance policy, or other document conferring value, is drawn. The beneficiary under a letter of credit is the party in whose favor it is issued, and who is entitled under its terms to draw a bill of exchange for acceptance by the issuing bank, and for discount by the notifying bank.

### Bequest

A gift or legacy of personal property left by a decedent in his will; a testamentary gift of personalty, as distinguished from a testamentary gift of realty, which is called a *Devise* (q. v.).

### Bid and Asked Quotations

Prices at which securities are wanted and at which they are offered for sale. Bid and asked quotations are printed on the stock exchange ticker at the close of the market after all actual sales have been reported. These quotations are published in the financial newspapers and larger daily newspapers

\*S. S. Pratt: *Work of Wall Street*, p. 72.

as an index of the probable price at which listed stocks and bonds may be purchased or sold. They are furnished by stock exchange members who are *Specialists* (q.v.) and while nominal, are the closest approximations to actual current sales available. They are especially helpful in appraising the market value of inactive stocks. (See Quotations.)

### Bid Price

The price offered for a security or commodity by a prospective buyer; the price at which a security or commodity is wanted, and at which it can be sold.

### Bids and Offers

Stock exchange rules define the various kinds of bids and offers which may be made. On the New York Stock Exchange all bids and offers are for 100 shares of stock, or for \$1,000 par value of bonds, unless otherwise stated. With reference to payment and delivery bids and offers may be made in four ways, described under *Methods of Trading* (q.v.). Bids and offers for larger lots than 100 shares for stocks, or \$1,000 for bonds, at a certain price, are good for any part thereof in full lots or multiples thereof, until the order is filled. The first bid or offer, when there are several at the same price, and when it can be distinguished, takes precedence over the others. Bids and offers may not be made in variations of less than one-eighth point.

### Big Board

See Board.

### Bill

This term has three meanings:

- (1) *Bill of Exchange* (q.v.).
- (2) A statement of account or of money due.
- (3) Same as *Note* (q.v.).

### Bill Book

Another name for *Liability Ledger* (q.v.).

### Bill Broker

A term used in England to designate a person who negotiates and discounts commercial paper, or who buys and sells it in the open market for a profit. The English bill broker corresponds to the American note broker. (See Note Brokers.)

### Bill for Payment

A draft or bill of exchange drawn and presented for payment, as distinguished from a bill for acceptance.

### Bill of Credit

This term has two meanings:

(1) A written advice requesting the party to whom it is addressed to extend credit to the bearer on the voucher or security of the signer.

(2) "Paper issued by the sovereign authority and intending to circulate as money" (John Marshall). The United States Constitution empowers Congress to borrow money and to emit "bills of credit". The use of this term to denote Government paper money is practically obsolete.

### Bill of Exchange

"An unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to order or to bearer." (Negotiable Instruments Law.) "An unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay in the United States, at a fixed or determinable future time, a sum certain in dollars to the order of a specified person." (Federal Reserve Board Regulations, Series of 1920, A.)

The terms bill of exchange and draft are used interchangeably, but the former is usually applied to an order to pay money arising out of a foreign transaction, while the latter term is more often reserved for domestic transactions. Technically, too, a bill of exchange is always a negotiable instrument, while a draft may be non-negotiable. (See Draft, Foreign Bills of Exchange, Negotiable Instruments Law, Art. 10-16.)

### Bill of Lading

A receipt issued by a carrier (land or water transportation company, express company, or forwarding agent), as bailee, certifying that it has received the therein described goods from the within-named consignor for transportation to a certain destination, to a specified consignee or to the order of any person. Bills of lading are an important form of collateral available as security for loans from commercial banks and foreign banking corporations, and when



they arise out of interstate commerce or commerce between any state and a foreign country are subject to the Federal Bill of Lading Act, passed August 29, 1916, and effective since January 1, 1917.

A bill of lading performs three functions and has as many legal characteristics: it is a receipt for designated goods; a contract to transport from the point of origin to the destination, the intermediate ways (especially in ocean bills of lading) usually being specified; and a document (or muniment) of title.

As a receipt a bill of lading should describe the goods so that they can be readily identified. It should be free from any disclaimer concerning the unsatisfactory condition of the wrapping of boxes or other containers, and from clauses limiting the carrier's responsibility, e. g., "said to contain," "shipper's load and count," etc. In other words, the bill of lading should be clean.

As a contract to transport a bill of lading should be signed by a responsible, regularly established carrier, or agent, and the points of origin and destination should be set forth.

As a document of title the various rights under a bill of lading depend upon its class. The Federal Bill of Lading Act distinguishes sharply between a "straight" and "order" bill of lading. The first states that the goods are consigned or destined to a specified consignee, and is intended primarily for domestic shipments; while the latter consigns the goods *to the order of any person*, and is intended for both domestic and foreign shipments. A straight bill of lading must be marked "non-negotiable," and duplicates must be so characterized. Title to the goods rests with the consignee, and while he may transfer his title by indorsement and delivery, he can transfer no better title than he himself holds, and a bank which lends on a straight bill of lading to a wrongful person, has no protection. An order bill of lading, however, may be negotiated, and when properly indorsed, any holder in good faith has title to the goods without question as to how possession has been acquired, and is, therefore, good bank collateral.

The elements of a bill of lading which should be scrutinized before accepting it as collateral are: (1) date, which should be sufficiently recent to indicate that the shipment has not already been delivered, i. e., the bill should not be stale. A back date arouses the suspicion of possible fraud; (2) name of issuing carrier, which should be a responsible railroad, or steamship, express or forwarding company; (3) points of origin and destination; (4) names of con-

signor and consignee (in an order bill of lading the names of these parties may be the same, and in this case the consignor must make an indorsement in blank or special indorsement, in order to convey title to the holder); (5) description of merchandise, which should be clear, and conform in the case of ocean bills of lading to the relative documents, e. g., seller's invoice, certificate of origin, consular invoice, certificate of weight and inspection, etc.; (6) issuance in sets, which, if designated, should be complete, whether two, three or four, as the case may be; (7) carrier's liability, which should be defined so as to clearly set forth the limitations on such liability.

The following is the text of a specimen ocean bill of lading:

RECEIVED, in apparent good order and condition, from ..... to be transported by the Steamship..... now lying at the port of NEW YORK and bound for port of .....with liberty, in addition to any liberty expressed or implied in this Bill of Lading, to proceed to, and use, any port or ports, in any rotation for any purposes whatsoever whether in or out of, or beyond, the customary or advertised route, and all such ports shall be deemed to be included in the intended voyage—and to carry goods of all kinds, dangerous or otherwise, and to carry Live Stock and/or cargo on deck, or falling shipment by said steamship in and upon following steamships: SAID TO WEIGH

..... being marked and numbered as per margin, shipper's weight (quality, quantity, gauge, weight, contents and value unknown), and to be delivered in like good order and condition at the Port of .....unto order of..... or to his or their assigns, he or they paying freight, primage, and charges, as per margin, immediately on discharge of the goods, without any allowance of credit or discount.

1. IT IS MUTUALLY AGREED that the steamer shall have liberty to sail with or without pilots; to tow and assist vessels in distress; to deviate for the purpose of saving life or property; that the carrier shall have liberty to convey goods in craft and/or lighters to and from the steamer at the risk of the owners of the goods; and, in case the steamer shall put into a port of refuge, or be prevented from any cause from proceeding in the ordinary course of her voyage, to tranship the goods to their destination by any other steamer; that the steamer and carrier shall not be liable for loss or damage occasioned by perils of the sea or other waters, by fire from any cause or wheresoever occurring, by barratry of the master or crew; by enemies, pirates, or robbers; by arrest or restraint of princes, rulers, or people, riots, strikes, or stoppage of labor; by explosion, bursting of boilers, breakage of shafts, or any latent defect in hull, machinery or appurtenances, or unseaworthiness of the steamer, whether existing at time of shipment or at the beginning of the voyage, provided the owners have exercised due diligence to make the steamer seaworthy; by heating, frost, decay, putrefaction, rust, sweat, change of character, drainage, leakage, by stowage or contact with or smell, evaporation, leakage, escape of contents, or taint, of other goods, the vessel being privileged to carry any other articles, although hazardous or contraband, by breakage, vermin, or by explosion of any of the goods, whether shipped with or without disclosure of their nature, or any loss or damage arising from the nature of the goods or the insufficiency of packages; nor for inland damage;

nor for the obliteration, errors, insufficiency, or absence of marks, numbers, address, or description; nor for risk of craft, hulk, or transshipment; nor for any loss or damage caused by prolongation of the voyage; and that the carrier shall not be concluded as to correctness of statements herein of quality, quantity, gauge, contents, weight and value. General average shall be adjusted according to York-Antwerp Rules of 1890, and as to matters not therein provided for, according to usages at port of adjustment, and shall be adjusted at the port of New York or last port of discharge, at carrier's option. If the ship-owner shall have exercised due diligence to make the vessel in all respects seaworthy and to have her properly manned, equipped and supplied, it is hereby agreed that in case of danger, damage or disaster resulting from accident or from default or error in navigation or in the management of the vessel or from any latent or other defect in the vessel, her machinery and appurtenances, or from unseaworthiness, although existing at time of shipment, or at beginning of the voyage (provided the defect or unseaworthiness was not discoverable by the exercise of due diligence) the shippers, consignees or owners of the cargo shall nevertheless pay salvage and any special charges incurred in respect of the cargo and shall contribute with the shipowners in general average to the payment of any sacrifices, losses or expenses of a general average nature that may be made or incurred for the common benefit or to relieve the adventure from any common peril. In case of salvage services rendered to aforesaid merchandise or treasure during the voyage by a vessel of the same line, such salvage services shall be paid for as fully as if such salvaging vessel or vessels belonged to strangers. Passengers' effects, if any, not to contribute in General Average, but claims for passengers' effects sacrificed to be allowed in General Average, less their proper contribution in such case.

2. The shipment is subject to all the terms and provisions of the Act of Congress of the United States, approved February 13, 1893, entitled "An Act relating to the Navigation of Vessels," etc., and of Sections 4,282 to 4,287, each inclusive, of the United States Revised Statutes. The Carrier shall not be liable for gold or other precious metals, precious stones, bills, notes, or securities, documents, pictures, glass, china, silk, furs, laces or any of the articles enumerated in Section 4,281 of the United States Revised Statutes, except in accordance with such Statute, and after written notice of the character and value thereof at the time of loading and entry thereof.

3. It is also mutually agreed that unless a higher value be stated herein and declared herein to be the basis of adjustment of freight, the value of any package shipped hereunder does not exceed \$150 per package, nor \$15 per cubic foot, nor \$30 per hundred weight, and the freight thereon has been adjusted on the basis of such valuation. In computing any liability of the carrier in respect of the goods, no value shall be placed thereon higher than the invoice cost, not exceeding \$150 per package, nor \$15 per cubic foot, nor \$30 per hundred weight (or such other value as may be stated herein as the basis of freight) nor the proportionate part of such cost and value, in case of any partial loss or damage.

4. ALSO, that shippers shall be liable for any loss or damage to steamer, cargo, lighter, or wharf caused by inflammable, explosive, or dangerous goods shipped without full disclosure of their nature, whether such shipper be principal or agent; and such goods may be thrown overboard or destroyed at any time without compensation. Extra charges, if any, for discharging, lighterage, or other expenses on hazardous goods, declared or considered as such by civil or military authorities, must be borne by shippers and/or consignees.

5. ALSO, that the steamer and carrier shall have a lien on and the right to sell the goods for all freights, primages and charges, and also for all fines or damages which the steamer or cargo may incur or suffer by reason of the illegal, incorrect or insufficient marking, numbering or addressing of packages, or description of their contents. Freights,

primages and charges, and any other moneys due hereunder, if not paid within seven days from the final discharge of the Ship, shall bear interest at the rate of 5 per cent per annum until paid, and the lien and right of sale above mentioned shall be extended to secure payment of interest. Bills of lading must be made out in accordance with the prescriptions and regulations of Port, Customs, or Consular authorities. Consular, Board of Health, or other certificates required to accompany the goods are to be procured by shippers, and any detention, charges or penalties accruing to steamer or cargo, owing to the want of such certificates, are to be borne by the shippers and/or consignees. Steamer will not be responsible for delay in the delivery of goods not plainly marked with the port of destination.

6. ALSO, in case the entry of the port of discharge or communication therewith, rendering or being liable to render the vessel liable to quarantine at any subsequent port, or in case of the master considering the entry of any port, either from epidemic or otherwise, unsafe or injurious to the further prosecution of the steamer's intended voyage, the goods may be landed or put into lazaretto, hulk, or lighter, at any other available port the master may consider safe, at shipper's risk and expense, and thereupon the liability of the steamer or carrier hereunder shall absolutely cease. In the event of quarantine, the goods may be discharged on arrival into quarantine, depot, hulk, lighter, or other vessel necessary for the ship's dispatch, at the consignee's risk and expense, or the master may carry on the goods to the nearest convenient port and there land them. Advices mailed to consignees, if named, or otherwise to shippers, shall be deemed, under this agreement, a due delivery of said goods, and such goods shall be liable and a lien held thereon for all quarantine expenses incurred in consequence.

7. ALSO, that if on account of weather, strikes, lockout, earthquake, epidemic, interdict, prohibition of importation, riot, war, or other disturbance, or any cause beyond the control of the said steamer or steamers, it shall be impossible or unsafe, in the opinion of the master, to unload said goods, as a whole or part, at the port of discharge or delivery, the same shall be carried to the next convenient port of discharge for transshipment to destination, or retained on board for delivery upon return at the master's option, but at the risk and expense of the owner of said goods. If landed at the next convenient port, advices mailed to consignees, if named, or otherwise to shippers, shall be deemed, under this agreement, a due delivery of said goods; and such goods shall be liable and a lien held thereon for all extra expenses incurred in consequence.

8. ALSO, that the steamer may commence discharging immediately on arrival, and discharge continuously, any custom of the port to the contrary notwithstanding, the collector of the port being hereby authorized to grant a general order for discharge immediately on arrival; and if the goods be not taken from the steamer by the consignee directly they come to hand in discharging the steamer, the master or steamer's agent to be at liberty to enter and land the goods, or put them into a craft or store at the owner's risk and expense, when the goods shall be deemed delivered and steamer's responsibility ended, but the steamer and carrier to have a lien on such goods until the payment of all costs and charges so incurred.

9. ALSO, all tonnage and shed dues (if any) payable by consignee and carrier have lien on goods until payment is made.

10. ALSO, that if on a sale of the goods at destination for freight, primage and charges, or other moneys due and interest, the proceeds are insufficient, the carrier shall be entitled to recover the difference from the shipper.

11. ALSO, that the full freight is payable on damaged or unsound goods; but no freight is due on any increase in bulk or weight caused by the absorption of water during the voyage.

12. ALSO, that the steamer has the privilege of reweighing or remeasuring any goods where rea-



sonable doubt exists as to the correctness of weights or measures, and any excess must be paid for at the rate of freight. The expenses of reweighing or remeasuring shall be paid by the party in error. *Goods wrongly described as to the real nature of their contents are liable for such additional freight as may be due.*

13. ALSO, if any bag or baled goods are landed slack or torn, the consignee shall accept such portion of the sweepings as shall be allotted by the steamer's agent, and the same shall be deemed a full settlement of any claim for losses in weight.

14. ALSO, that for metal in slabs, bars, ingots, rods, hoops, plates, etc., or any other article not properly packed but shipped loose or in bundles, steamer and carrier is not responsible for loss through breakage nor for their respective marks and/or weight and/or measurement, nor for loss of broken pieces.

15. *ALSO, that in the event of claims for short delivery when the steamer reaches her destination, the price shall be the market price at the port of destination on the day of the steamer's entry at the Custom House, less all charges saved, subject to clause No. 3 hereon. All claims for short delivery, loss, damage, or of whatever nature, must be made in writing to the steamer's agent at the port of destination of the goods within thirty days after the steamer or lighter finished discharging, and in case of damage ALWAYS BEFORE the goods are taken delivery of by the consignee; and in case such claims shall not be presented in writing within the time and the place hereinbefore designated, such loss or damage shall be deemed to be waived and the steamer discharged therefrom.*

16. ALSO, that merchandise on wharf or lighter awaiting shipment or delivery be at shipper's risk of loss or damage not happening through the fault or negligence of the owner, master, agent, or manager of the steamer or lighter, any local customs or privileges to the contrary notwithstanding.

17. ALSO, that this Bill of Lading, duly endorsed, be given up to the steamer's agent in exchange for a delivery order.

18. *ALSO, freight intended to be prepaid is fully and irrevocably earned upon receipt of the goods for shipment, and shall not be refunded in whole or part if prepaid, and shall be payable without deduction if unpaid, in any circumstances whatsoever, and whether or not the goods have been loaded or the voyage begun, and shall constitute a lien on the goods, and on any part or proceeds, for the whole thereof.*

19. ALSO, that the freight prepaid will not be returned, goods lost or not lost.

20. ALSO, that parcels for different consignees collected or made up in single packages addressed to one consignee pay full freight on each parcel.

21. ALSO, that packages, exceeding one ton in weight or measurement shall be liable to pay extra charges, if any, for loading, handling, transshipping or discharging. Also, that the steamer or any of the servants of the company shall not be liable for any damage or loss occurring from any accident in loading, handling, discharging or transshipping of packages exceeding one ton in weight. And in case of any damage or loss resulting to the steamer, cargo, lighters, cranes or hoisting tackle, owing to incorrect weight having been declared, the shippers and/or consignees of such cargo shall be responsible for such loss or damage.

22. ALSO, that the carrier shall not be liable for splits, shakes, stains or breakage to Lumber or Logs.

23. ALSO, that where grain is stowed together with other grain without separation, either from the same or another shipper, each Bill of Lading shall bear its proportion of loss and/or damage, if any.

24. ALSO, in no case shall the total liability of the carrier to all claimants in respect of damages arising from any one casualty exceed the value of the owner's interest in the steamer, and/or her wreck and pending freight.

25. ALSO, that the carriers shall have a lien on the goods for the cost of any necessary mending, baling, cooage or repairs, and for all fines or damages which the ship or Cargo may incur or suffer by reason of the incorrect or insufficient marking of packages or description of their contents. All dues on Cargo and dues imposed on steamer by reason of having this Cargo on board, to be paid by the Cargo.

26. ALSO, that Shipowners are at liberty at any time and place before or after sailing or after arrival at port of discharge to put the vessel in dry-dock for any purposes whatsoever, with the whole or part of the cargo shipped hereunder on board, and such docking shall not be deemed a deviation.

27. ALSO, that nothing herein contained shall deprive the carriers of the right to claim the benefit of any British or American statutory exemption from or limitation of liability.

LONDON CLAUSE (A).—The steamer-owners shall, at their option, be entitled to land the goods within mentioned on the quays, or to discharge them into craft hired by them, immediately on arrival, and at consignee's risk and expense, the steamer-owners being entitled to collect the same charges on goods entered for landing at the docks as goods entered for delivery to lighters. Consignees desirous of conveying their goods elsewhere shall, on making application to the steamer's agents or to the dock company within 72 hours after steamer shall have been reported, be entitled to delivery into consignee's lighters at the following rates, to be paid with the freight to the steamer's agents against release, or to the dock company, if so directed by the steamer's agents, *viz.*: Following wooden goods in packages—clothes pegs, spade handles, blind rollers, hubs, spokes, wheels and oars 1-3 per ton measurement; hops, 2-9 per ton weight; lumber and logs, 2/- per ton measurement, or 2-6 per ton weight, at steamer's option. All other general cargo except slates, 1-9 per ton weight or measurement at steamer's option; minimum charge one ton. Slates to pay 2/- per ton weight. Cheese may also be removed by consignee's vans within one week after steamer shall have reported, subject to a like payment of 3-3 per ton weight, such sum to include loading up and wharfage. Any single article weighing over one ton to be subject to extra expense for handling if incurred. All measurement freight to be on the intake caliper measurement, as stated in margin. Freights by weight (grain excepted) to be paid upon the weight stated in margin, or at steamer's option upon landing weight. If weight has been understated, the cost of weighing to be a charge upon the goods. All shipments of lumber and logs which are sent forward on a weight rate will pay freight on the railroad weights furnished at port of shipment. No alteration will be permitted in any weight, or freights included in this Bill of Lading except at steamer's option.

(B). Grain for overside delivery is to be applied for within twenty-four hours of steamer's arrival (or thereafter immediately it becomes clear) at any dock, quay, river wharf or other wharf or landing place selected by the steamer-owners or agents. In the absence of sufficient consignee's craft, with responsible persons in charge, to receive as fast as steamer can discharge overside into lighters during usual working hours, the Master or Agent may land or discharge into lighters at the risk and expense of the consignee. The steamer-owners or agents may land or discharge continuously day and/or night, any grain landed or discharged for steamer's convenience during usual working hours (consignee's craft being duly in attendance) and any grain that may be landed or discharged before or after usual working hours (whether craft are then in attendance or not) is to be given up free to consignee's craft applying for same within seventy-two hours from its landing or discharge, otherwise it will be subject to the usual dock, quay, river wharf or other wharf or landing place charges. An extra freight of 7d. per ton shall be paid to the steamer-owners or agents on each consignment of grain whether any portion be landed or not. The grain to be weighed at time of dis-



charge, either on deck and/or dock, quay, river wharf or other wharf or landing place and/or craft at steamer's option. Working out charges (including weighing) as fixed by the Port of London Authority for grain in bulk and/or steamer's bags to be paid by the consignee with the freight to the steamer's agents or to the authorized representative of the dock, quay, river wharf or other wharf or landing place if so directed by the steamer's agents, in exchange for release. Neither party shall be liable for any interference with the performance of the contract herein contained, which is caused by strikes, or lockout of seamen, lightermen, stevedores or shore laborers, or railway or transport or other disturbances of any kind or in furtherance thereof whether partial or otherwise, nor for any consequences thereof and in such case the steamer-owner or agents shall be entitled to land or put into craft at the risk and expense of consignee. In case the grain shipped under this Bill of Lading forms part of a larger bulk, each Bill of Lading to bear its proportion of shortage and damage, if any.

(C) HAY, STRAW, PITCH, TURPENTINE, ISTLE, HYDROLENE, TAR, ACETONE, FLOUR, ASPHALT, JUTE, HEMP, LAMP-BLACK, CARBONBLACK, ROSIN, VARNISH, WOOD SPIRITS, ILLUMINATING AND OIL of all kinds, whether animal, vegetable or mineral and the liquid products of them or any of them, COTTON WASTE, COTTON RAGS, CELLULOID, also any other goods of a more or less hazardous nature. Consignees to have craft in attendance, immediately on steamer's arrival at dock, quay, river-wharf, or other wharf or landing place, selected by the steamer-owners to take delivery of any of the above mentioned commodities from steamer, or at steamer-owner's option at such dock, quay, river-wharf, or other wharf or landing place as aforesaid, the steamer-owners having the option of working continuously day and/or night, and to pay 1/3d. per ton weight or measurement at steamer-owner's option, or otherwise the goods will be put into Captain's entry craft at consignee's risk and expense.

These London clauses "A" "B" and "C" are to form part of this Bill of Lading, and any words at variance with them are hereby cancelled.

Craft which are in attendance for delivery under above clauses and stipulations shall wait free of demurrage their regular turn to receive goods or grain as required by steamer-owners, either from steamer or quay or Captain's entry craft.

The steamer-owners shall have the same lien, rights and remedies on goods or grain, referred to in the above clauses or under any other clauses of the Bills of Lading as they have by law in respect of freight.

The exceptions and conditions enumerated in this Bill of Lading shall apply not only during the loading and voyage, but during the discharge and until the goods and grain are actually delivered to the consignee and the persons handling the goods and grain in the steamer, on the quays or into lighters, or till delivery to consignee, or to the dock company, shall be deemed the servants of the steamer-owners.

AND FINALLY, in accepting the Bill of Lading, the shipper, owner and consignee of the goods and the holder of the Bill of Lading, agree to be bound by all of its stipulations, exceptions and conditions, whether written or printed, as fully as if they were all signed by such shipper, owner, consignee or holder.

IN WITNESS WHEREOF, the master or agent of the said steamer hath affirmed to..... Bills of Lading, all of this tenor and date, one of which being accomplished, the others to stand void. ....Steam Ship Company.

### Bill of Lading Act

The following is the text of the Federal Bill of Lading Act:

#### AN ACT RELATING TO BILLS OF LADING IN INTER-STATE AND FOREIGN COMMERCE

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That bills of lading issued by any common carrier for the transportation of goods in any Territory of the United States, or the District of Columbia, or from a place in a State to a place in a foreign country, or from a place in one State to a place in another State, or from a place in one State to a place in the same State through another State or foreign country, shall be governed by this Act.

SEC. 2. That a bill in which it is stated that the goods are consigned or destined to a specified person is a straight bill.

SEC. 3. That a bill in which it is stated that the goods are consigned or destined to the order of any person named in such bill is an order bill. Any provision in such a bill or in any notice, contract, rule, regulation, or tariff that it is nonnegotiable shall be null and void and shall not affect its negotiability within the meaning of this Act unless upon its face and in writing agreed to by the shipper.

SEC. 4. That order bills issued in a State for the transportation of goods to any place in the United States on the Continent of North America, except Alaska and Panama, shall not be issued in parts or sets. If so issued, the carrier issuing them shall be liable for failure to deliver the goods described therein to anyone who purchases a part for value in good faith, even though the purchase be after the delivery of the goods by the carrier to a holder of one of the other parts: *Provided, however,* That nothing contained in this section shall be interpreted or construed to forbid the issuing of order bills in parts or sets for such transportation of goods to Alaska, Panama, Porto Rico, the Philippines, Hawaii, or foreign countries, or to impose the liabilities set forth in this section for so doing.

SEC. 5. That when more than one order bill is issued in a State for the same goods to be transported to any place in the United States on the Continent of North America, except Alaska and Panama, the word "duplicate," or some other word or words indicating that the document is not an original bill, shall be placed plainly upon the face of every such bill except the one first issued. A carrier shall be liable for the damage caused by his failure so to do to anyone who has purchased the bill for value in good faith as an original, even though the purchase be after the delivery of the goods by the carrier to the holder of the original bill: *Provided, however,* That nothing contained in this section shall in such case for such transportation of goods to Alaska, Panama, Porto Rico, the Philippines, Hawaii, or foreign countries be interpreted or construed so as to require the placing of the word "duplicate" thereon, or to impose the liabilities set forth in this section for failure so to do.

SEC. 6. That a straight bill shall have placed plainly upon its face by the carrier issuing it "non-negotiable" or "not negotiable."

This section shall not apply, however, to memoranda or acknowledgments of an informal character.

SEC. 7. That the insertion in an order bill of the name of a person to be notified of the arrival of the goods shall not limit the negotiability of the bill or constitute notice to a purchaser thereof of any rights or equities of such person in the goods.

SEC. 8. That a carrier, in the absence of some lawful excuse, is bound to deliver goods upon a demand made either by the consignee named in the bill for the goods or, if the bill is an order bill, by the holder thereof, if such a demand is accompanied by—

(a) An offer in good faith to satisfy the carrier's lawful lien upon the goods;

(b) Possession of the bill of lading and an offer in good faith to surrender, properly indorsed, the bill which was issued for the goods, if the bill is an order bill; and

(c) A readiness and willingness to sign, when the goods are delivered, an acknowledgment that

they have been delivered, if such signature is requested by the carrier.

In case the carrier refuses or fails to deliver the goods, in compliance with a demand by the consignee or holder so accompanied, the burden shall be upon the carrier to establish the existence of a lawful excuse for such refusal or failure.

SEC. 9. That a carrier is justified, subject to the provisions of the three following sections, in delivering goods to one who is—

(a) A person lawfully entitled to the possession of the goods, or

(b) The consignee named in a straight bill for the goods, or

(c) A person in possession of an order bill for the goods, by the terms of which the goods are deliverable to his order; or which has been indorsed to him, or in blank by the consignee, or by the mediate or immediate indorsee of the consignee.

SEC. 10. That where a carrier delivers goods to one who is not lawfully entitled to the possession of them, the carrier shall be liable to anyone having a right of property or possession in the goods if he delivered the goods otherwise than as authorized by subdivisions (b) and (c) of the preceding section; and, though he delivered the goods as authorized by either of said subdivisions, he shall be so liable if prior to such delivery he—

(a) Had been requested, by or on behalf of a person having a right of property or possession in the goods, not to make such delivery, or

(b) Had information at the time of the delivery that it was to a person not lawfully entitled to the possession of the goods.

Such request or information, to be effective within the meaning of this section, must be given to an officer or agent of the carrier, the actual or apparent scope of whose duties includes action upon such a request or information, and must be given in time to enable the officer or agent to whom it is given, acting with reasonable diligence, to stop delivery of the goods.

SEC. 11. That except as provided in section twenty-six, and except when compelled by legal process, if a carrier delivers goods for which an order bill had been issued, the negotiation of which would transfer the right to the possession of the goods, and fails to take up and cancel the bill, such carrier shall be liable for failure to deliver the goods to anyone who for value and in good faith purchases such bill, whether such purchaser acquired title to the bill before or after the delivery of the goods by the carrier and notwithstanding delivery was made to the person entitled thereto.

SEC. 12. That except as provided in section twenty-six, and except when compelled by legal process, if a carrier delivers part of the goods for which an order bill had been issued and fails either—

(a) To take up and cancel the bill, or

(b) To place plainly upon it a statement that a portion of the goods has been delivered with a description which may be in general terms either of the goods or packages that have been so delivered or of the goods or packages which still remain in the carrier's possession, he shall be liable for failure to deliver all the goods specified in the bill to anyone who for value and in good faith purchases it, whether such purchaser acquired title to it before or after the delivery of any portion of the goods by the carrier, and notwithstanding such delivery was made to the person entitled thereto.

SEC. 13. That any alteration, addition, or erasure in a bill after its issue without authority from the carrier issuing the same, either in writing or noted on the bill, shall be void, whatever be the nature and purpose of the change, and the bill shall be enforceable according to its original tenor.

SEC. 14. That where an order bill has been lost, stolen, or destroyed, a court of competent jurisdiction may order the delivery of the goods upon satisfactory proof of such loss, theft, or destruction and upon the giving of a bond, with sufficient surety, to be approved by the court, to protect the carrier or any person injured by such delivery from any liability or loss incurred by reason of the

original bill remaining outstanding. The court may also in its discretion order the payment of the carrier's reasonable costs and counsel fees: *Provided*, a voluntary indemnifying bond without order of court shall be binding on the parties thereto.

The delivery of the goods under an order of the court, as provided in this section, shall not relieve the carrier from liability to a person to whom the order bill has been or shall be negotiated for value without notice of the proceedings or of the delivery of the goods.

SEC. 15. That a bill, upon the face of which the word "duplicate" or some other word or words indicating that the document is not an original bill is placed, plainly shall impose upon the carrier issuing the same the liability of one who represents and warrants that such bill is an accurate copy of an original bill properly issued, but no other liability.

SEC. 16. That no title to goods or right to their possession asserted by a carrier for his own benefit shall excuse him from liability for refusing to deliver the goods according to the terms of a bill issued for them, unless such title or right is derived directly or indirectly from a transfer made by the consignor or consignee after the shipment, or from the carrier's lien.

SEC. 17. That if more than one person claim the title or possession of goods, the carrier may require all known claimants to interplead, either as a defense to an action brought against him for non-delivery of the goods or as an original suit, whichever is appropriate.

SEC. 18. That if some one other than the consignee or the person in possession of the bill has a claim to the title or possession of the goods, and the carrier has information of such claim, the carrier shall be excused from liability for refusing to deliver the goods, either to the consignee or person in possession of the bill or to the adverse claimant, until the carrier has had a reasonable time to ascertain the validity of the adverse claim or to bring legal proceedings to compel all claimants to interplead.

SEC. 19. That except as provided in the two preceding sections and in section nine, no right or title of a third person, unless enforced by legal process, shall be a defense to an action brought by the consignee of a straight bill or by the holder of an order bill against the carrier for failure to deliver the goods on demand.

SEC. 20. That when goods are loaded by a carrier such carrier shall count the packages of goods, if package freight, and ascertain the kind and quantity if bulk freight, and such carrier shall not, in such cases, insert in the bill of lading or in any notice, receipt, contract, rule, regulation, or tariff, "Shipper's weight, load, and count," or other words of like purport, indicating that the goods were loaded by the shipper and the description of them made by him or in case of bulk freight and freight not concealed by packages the description made by him. If so inserted, contrary to the provisions of this section, said words shall be treated as null and void and as if not inserted therein.

SEC. 21. That when package freight or bulk freight is loaded by a shipper and the goods are described in a bill of lading merely by a statement of marks or labels upon them or upon packages containing them, or by a statement that the goods are said to be goods of a certain kind or quantity, or in a certain condition, or it is stated in the bill of lading that packages are said to contain goods of a certain kind or quantity or in a certain condition, or that the contents or condition of the contents of the packages are unknown, or words of like purport are contained in the bill of lading, such statements, if true, shall not make liable the carrier issuing the bill of lading, although the goods are not of the kind or quantity or in the condition which the marks or labels upon them indicate, or of the kind or quantity or in the condition they were said to be by the consignor. The carrier may also by inserting in the bill of lading the words "Shipper's weight, load, and count," or other words of like purport indicate that the goods



were loaded by the shipper and the description of them made by him; and if such statement be true, the carrier shall not be liable for damages caused by the improper loading or by the non-receipt or by the misdescription of the goods described in the bill of lading: *Provided, however*, Where the shipper of bulk freight installs and maintains adequate facilities for weighing such freight, and the same are available to the carrier, then the carrier, upon written request of such shipper and when given a reasonable opportunity so to do, shall ascertain the kind and quantity of bulk freight within a reasonable time after such written request, and the carriers shall not in such cases insert in the bill of lading the words "Shipper's weight," or other words of like purport, and if so inserted contrary to the provisions of this section, said words shall be treated as null and void and as if not inserted therein.

SEC. 22. That if a bill of lading has been issued by a carrier or on his behalf by an agent or employee the scope of whose actual or apparent authority includes the receiving of goods and issuing bills of lading therefor for transportation in commerce among the several States and with foreign nations, the carrier shall be liable to (a) the owner of goods covered by a straight bill subject to existing right of stoppage in transitu or (b) the holder of an order bill, who has given value in good faith, relying upon the description therein of the goods, for damages caused by the nonreceipt by the carrier of all or part of the goods or their failure to correspond with the description thereof in the bill at the time of its issue.

SEC. 23. That if goods are delivered to a carrier by the owner or by a person whose act in conveying the title to them to a purchaser for value in good faith would bind the owner, and an order bill is issued for them, they can not thereafter, while in the possession of the carrier, be attached by garnishment or otherwise or be levied upon under an execution unless the bill be first surrendered to the carrier or its negotiation enjoined. The carrier shall in no such case be compelled to deliver the actual possession of the goods until the bill is surrendered to him or impounded by the court.

SEC. 24. That a creditor whose debtor is the owner of an order bill shall be entitled to such aid from courts of appropriate jurisdiction by injunction and otherwise in attaching such bill or in satisfying the claim by means thereof as is allowed at law or in equity in regard to property which can not readily be attached or levied upon by ordinary legal process.

SEC. 25. That if an order bill is issued the carrier shall have a lien on the goods therein mentioned for all charges on those goods for freight, storage, demurrage and terminal charges, and expenses necessary for the preservation of the goods or incident to their transportation subsequent to the date of the bill and all other charges incurred in transportation and delivery, unless the bill expressly enumerates other charges for which a lien is claimed. In such case there shall also be a lien for the charges enumerated so far as they are allowed by law and the contract between the consignor and the carrier.

SEC. 26. That after goods have been lawfully sold to satisfy a carrier's lien, or because they have not been claimed, or because they are perishable or hazardous, the carrier shall not thereafter be liable for failure to deliver the goods themselves to the consignee or owner of the goods, or to a holder of the bill given for the goods when they were shipped, even if such bill be an order bill.

SEC. 27. That an order bill may be negotiated by delivery where, by the terms of the bill, the carrier undertakes to deliver the goods to the order of a specified person, and such person or a subsequent indorsee of the bill has indorsed it in blank.

SEC. 28. That an order bill may be negotiated by the indorsement of the person to whose order the goods are deliverable by the tenor of the bill. Such indorsement may be in blank or to a specified person. If indorsed to a specified person, it may be negotiated again by the indorsement of such

person in blank or to another specified person. Subsequent negotiation may be made in like manner.

SEC. 29. That a bill may be transferred by the holder by delivery, accompanied with an agreement, express or implied, to transfer the title to the bill or to the goods represented thereby. A straight bill can not be negotiated free from existing equities, and the indorsement of such a bill gives the transferee no additional right.

SEC. 30. That an order bill may be negotiated by any person in possession of the same, however such possession may have been acquired, if by the terms of the bill the carrier undertakes to deliver the goods to the order of such person, or if at the time of negotiation the bill is in such form that it may be negotiated by delivery.

SEC. 31. That a person to whom an order bill has been duly negotiated acquires thereby—

(a) Such title to the goods as the person negotiating the bill to him had or had ability to convey to a purchaser in good faith for value, and such title to the goods as the consignee and consignor had or had power to convey to a purchaser in good faith for value; and

(b) The direct obligation of the carrier to hold possession of the goods for him according to the terms of the bill as fully as if the carrier had contracted directly with him.

SEC. 32. That a person to whom a bill has been transferred, but not negotiated, acquires thereby as against the transferor the title to the goods, subject to the terms of any agreement with transferor. If the bill is a straight bill such person also acquires the right to notify the carrier of the transfer to him of such bill and thereby to become the direct obligee of whatever obligations the carrier owed to the transferor of the bill immediately before the notification.

Prior to the notification of the carrier by the transferor or transferee of a straight bill the title of the transferee to the goods and the right to acquire the obligation of the carrier may be defeated by garnishment or by attachment or execution upon the goods by a creditor of the transferor, or by notification to the carrier by the transferor or a subsequent purchaser from the transferor of a subsequent sale of the goods by the transferor.

A carrier has not received notification within the meaning of this section unless an officer or agent of the carrier, the actual or apparent scope of whose duties includes action upon such notification, has been notified; and no notification shall be effective until the officer or agent to whom it is given has had time, with the exercise of reasonable diligence, to communicate with the agent or agents having actual possession or control of the goods.

SEC. 33. That where an order bill is transferred for value by delivery, and the indorsement of the transferor is essential for negotiation, the transferee acquires a right against the transferor to compel him to indorse the bill, unless a contrary intention appears. The negotiation shall take effect as of the time when the indorsement is actually made. This obligation may be specifically enforced.

SEC. 34. That a person who negotiates or transfers for value a bill by indorsement or delivery, unless a contrary intention appears, warrants—

(a) That the bill is genuine;  
 (b) That he has a legal right to transfer it;  
 (c) That he has knowledge of no fact which would impair the validity or worth of the bill;  
 (d) That he has a right to transfer the title to the goods, and that the goods are merchantable or fit for a particular purpose whenever such warranties would have been implied if the contract of the parties had been to transfer without a bill the goods represented thereby.

SEC. 35. That the indorsement of a bill shall not make the indorser liable for any failure on the part of the carrier or previous indorsers of the bill to fulfill their respective obligations.

SEC. 36. That a mortgagee or pledgee or other holder of a bill for security who in good faith demands or receives payment of the debt for which



such bill is security, whether from a party to a draft drawn for such debt or from any other person, shall not be deemed by so doing to represent or warrant the genuineness of such bill or the quantity or quality of the goods therein described.

SEC. 37. That the validity of the negotiation of a bill is not impaired by the fact that such negotiation was a breach of duty on the part of the person making the negotiation, or by the fact that the owner of the bill was deprived of the possession of the same by fraud, accident, mistake, duress, loss, theft, or conversion, if the person to whom the bill was negotiated, or a person to whom the bill was subsequently negotiated, gave value therefor in good faith, without notice of the breach of duty, or fraud, accident, mistake, duress, loss, theft, or conversion.

SEC. 38. That where a person, having sold, mortgaged, or pledged goods which are in a carrier's possession and for which an order bill has been issued, or having sold, mortgaged, or pledged the order bill representing such goods, continues in possession of the order bill, the subsequent negotiation thereof by that person under any sale, pledge, or other disposition thereof to any person receiving the same in good faith, for value and without notice of the previous sale, shall have the same effect as if the first purchaser of the goods or bill had expressly authorized the subsequent negotiation.

SEC. 39. That where an order bill has been issued for goods no seller's lien or right of stoppage in transitu shall defeat the rights of any purchaser for value in good faith to whom such bill has been negotiated, whether such negotiation be prior or subsequent to the notification to the carrier who issued such bill of the seller's claim to a lien or right of stoppage in transitu. Nor shall the carrier be obliged to deliver or justified in delivering the goods to an unpaid seller unless such bill is first surrendered for cancellation.

SEC. 40. That, except as provided in section thirty-nine, nothing in this Act shall limit the rights and remedies of a mortgagee or lien holder whose mortgage or lien on goods would be valid, apart from this Act, as against one who for value and in good faith purchased from the owner, immediately prior to the time of their delivery to the carrier, the goods which are subject to the mortgage or lien and obtained possession of them.

SEC. 41. That any person who, knowingly or with intent to defraud, falsely makes, alters, forges, counterfeits, prints or photographs any bill of lading purporting to represent goods received for shipment among the several States or with foreign nations, or with like intent utters or publishes as true and genuine any such falsely altered, forged, counterfeited, falsely printed or photographed bill of lading, knowing it to be falsely altered, forged, counterfeited, falsely printed or photographed, or aids in making, altering, forging, counterfeiting, printing or photographing, or uttering or publishing the same, or issues or aids in issuing or procuring the issue of, or negotiates or transfers for value a bill which contains a false statement as to the receipt of the goods, or as to any other matter, or who, with intent to defraud, violates, or fails to comply with, or aids in any violation of, or failure to comply with any provision of this Act, shall be guilty of a misdemeanor, and, upon conviction, shall be punished for each offense by imprisonment not exceeding five years, or by a fine not exceeding \$5,000, or both.

SEC. 42. First. That in this Act, unless the context of subject matter otherwise requires—

"Action" includes counterclaim, set-off, and suit in equity.

"Bill" means bill of lading governed by this Act.

"Consignee" means the person named in the bill as the person to whom delivery of the goods is to be made.

"Consignor" means the person named in the bill as the person from whom the goods have been received for shipment.

"Goods" means merchandise or chattels in course of transportation or which have been or are about to be transported.

"Holder" of a bill means a person who has both actual possession of such bill and a right of property therein.

"Order" means an order by indorsement on the bill.

"Person" includes a corporation or partnership, or two or more persons having a joint or common interest.

To "purchase" includes to take as mortgagee and to take as pledgee.

"State" includes any Territory, District, insular possession, or isthmian possession.

SEC. 43. That the provisions of this Act do not apply to bills made and delivered prior to the taking effect thereof.

SEC. 44. That the provisions and each part thereof and the sections and each part thereof of this Act are independent and severable, and the declaring of any provision or part thereof, or provisions or part thereof, or section or part thereof, or sections or part thereof, unconstitutional shall not impair or render unconstitutional any other provision or part thereof or section or part thereof.

SEC. 45. That this Act shall take effect and be in force on and after the first day of January next after its passage.

Approved, August 29, 1916.

## Bill of Sale

A document which conveys title to, or right or interest in, personal property from the seller to the buyer.

## Bills Discounted

The aggregate of notes, acceptances and bills of exchange which a bank has discounted for its customers, as distinguished from loans; the title of an account in the general ledger which controls the *Bills Discounted Ledger* (q. v.), to indicate the total bills discounted.

## Bills Discounted Overdue

The aggregate of notes, acceptances and bills of exchange, which were not paid at maturity, and held separately awaiting collection, legal action, or writing off as a loss. Paper which is not paid at maturity is deducted from the bills discounted account and added to bills discounted overdue, since the former contains only unmatured items. This term is also the title of a controlling account in the general ledger. (See Bad Debts.)

## Bills Discounted Ledger

A subsidiary ledger in which the details of all notes, acceptances and bills of exchange discounted are classified by customers so that the amount and nature of the liability of each borrower on this class of paper can be readily ascertained. It is also known as the *Liability Ledger* (q. v.).

## Bills Discounted Register

A journal or register in which notes, acceptances, and bills of exchange discounted

are entered numerically and chronologically. It contains the first complete record of each note, etc., discounted, and is a permanent record. After notes are recorded in this register they are posted in the *Liability Ledger* (q. v.).

### Bills for Collection

See Foreign Collection Items.

### Bills in a Set

Bills of exchange, and accompanying documents, *e. g.*, bill of lading, are usually issued in duplicate, and sometimes in triplicate. (For further information, see Bill of Lading, and First of Exchange).

### Bills Payable

Notes or acceptances upon which a business is the principal debtor as shown by its books; aggregate sum due to trade creditors as evidenced by notes or acceptances held by them; a controlling account in the general ledger to indicate the total of notes and acceptances which the business is bound to pay at their maturity.

The term also applies to the sum which a member bank has borrowed from the Federal Reserve bank of its district or on its own collateral note. Member banks may secure advances from a Federal Reserve bank on their promissory notes for a period not exceeding 15 days at the rediscount rate fixed by the latter, and provided such promissory notes are secured by eligible commercial paper, bank acceptances, or by bonds or notes of the United States. (See Repurchase Agreement.)

### Bills Receivable

Notes and acceptances given by customers, usually in payment of merchandise as shown by the books of a business; aggregate sum due from trade debtors evidenced by notes and acceptances upon which they are the principal debtors; a controlling account in the general ledger to indicate the total of notes and acceptances on hand, and which the principal debtors thereon are bound to pay at maturity.

### Bimetallism

The free concurrent coinage of two metals, usually gold and silver, without limitation as to quantity at an established coinage or mint ratio into coins of full legal tender power. A distinction is sometimes drawn between bimetallism and the double standard. Bimetallism differs from

the double standard in that in bimetallism the Government mints are open to free coinage of either metal without limit. Under the double standard while coins of both metals are endowed with full legal tender powers, only one is freely coined, the other being coined on Government account only.

### Black Friday

September 24, 1869. At this period the balance of trade was heavily against the United States. Since gold was rapidly flowing out of the country, and the United States Treasury had discontinued the sale of gold, Jay Gould, then President of the Erie Railroad and a bold speculator, attempted to get a corner on the merchantable stock of gold, and to compel those who had sold it short, to cover at dictated prices. He organized a pool and the joint-venture plan was put into operation. The price was forced from 133 to 162 in about 20 days, the highest price being attained on Black Friday. Thereafter the price quickly receded to normal.

### Bland-Allison Act

An act passed February 28, 1878, which required the Treasury Department to purchase at the market price not less than \$2,000,000 nor more than \$4,000,000 of silver bullion a month for immediate coinage into standard silver dollars of 412½ grains at the mint ratio of 15.988 to 1. The act was a compromise measure between those in favor of the remonetization of silver and its opponents. As first introduced it provided for the *Free Coinage* (q. v.) of silver, but was later amended to read as stated above. About \$25,000,000 in silver dollars were coined annually for the ensuing twelve years, thus adding huge quantities of overvalued silver dollars to the currency. The act provided for the deposit of silver dollars in the United States Treasury and the issue of a corresponding amount of silver certificates redeemable in the silver dollars deposited as security. The Bland-Allison Act was repealed in 1890, and superseded by the *Sherman Silver Purchase Act* (q. v.).

### Blank Indorsement

Indorsement in blank. (See Indorsement.)

### Blanket Mortgage

A mortgage which covers all the property or group of properties of a corporation and

given to secure a single debt. A blanket mortgage has about the same significance as a general mortgage, or first and refunding mortgage. A large number of the mortgages of railroad and public utility corporations contain a clause in the deed of trust known as the "hereafter-acquired-property" clause, which stipulates that not only the present owned property but that any future acquired property becomes subject to the mortgage. Bonds secured by a blanket mortgage of this type constitute a lien against all present and future acquired property of a corporation, which has no power to issue additional bonds against the property of

plished before the end of that period. (See Pool.)

**Block**

This term has two meanings:

(1) A large amount of stocks or bonds sold or offered for sale; a multiple of a full lot of stock, *e. g.*, 1,000 shares, 6,000 shares, or of bonds, *e. g.*, \$200,000 par value.

(2) A lot, batch, or bundle of checks deposited for credit with a bank together with their relative deposit slips for sorting into (1) self-checks, (2) clearing house checks, (3) non-clearing house or messenger checks, and (4) transit checks, and for proving with

BLOCK PROOF

In proving deposit tickets, clerks must number the deposit tickets, and sign this proof.

No.

Date

Proved by

Deposit Tickets					Self-Checks				
No.	.....	.....	.....	.....	Clearing House	.....	.....	.....	.....
No.	.....	.....	.....	.....	Messenger	.....	.....	.....	.....
No.	.....	.....	.....	.....	Transit	.....	.....	.....	.....
No.	.....	.....	.....	.....	Treasury	.....	.....	.....	.....
No.	.....	.....	.....	.....	Coupons	.....	.....	.....	.....
No.	.....	.....	.....	.....	Cash	.....	.....	.....	.....
No.	.....	.....	.....	.....		.....	.....	.....	.....
<b>TOTAL</b>					<b>TOTAL</b>				

equal rank as a lien with those already outstanding.

**Blank Transfer**

An assignment or transfer of stock in blank. (See Assignment, Assignment in Blank.)

**Blind Pool**

A pool of individual speculators, brokers, or corporations who combine their capital in a speculative venture, but who place the management thereof in the control of one person for a specified time. The other members of the pool are not permitted to know the activities of the manager of the pool or the status of their commitments until the expiration of the pool period, unless the object for which the pool was organized is accom-

plished before the end of that period. (See Block System.)

**Block System**

A system also known as the "batch" system, used in the receiving teller's, mail teller's and clearing house (check) departments of a bank for sorting and proving checks against their relative deposit slips, etc. It is a system of preliminary accounting employed in most banks of any importance to save time in proving customers' deposits before the deposit slips are posted to the individual (customers') ledger or ledgers.

When deposits are received over the receiving teller's window the receiving teller usually verifies only the cash. The checks are scrutinized only when the number is small, and to note the regularity of indorse-



ments, etc. The verification of the footing of the deposit slip with the checks is performed after the entry is made in the depositor's pass book by a special group of clerks, very often organized into a "block department".

A "block" consists of a group of checks, usually numbering from 100 to 400, together with their relative deposit slips. To prove a block, the checks are first sorted into the divisions required by the conditions in each particular bank, *e. g.*, self-checks, clearing house checks, messenger or non-clearing house checks, checks drawn on the U. S. Treasury, postal money orders, matured coupons, etc. After this sortation process is finished, an adding machine total of the checks is secured by divisions. Another adding machine total of the deposit slip footings is secured, which, if the "block" proves, must equal the total of the checks.

A "block" is a relatively small unit of work complete in itself. Blocks can be proved as deposits come in, instead of waiting until the receiving teller's window closes for the day. If errors occur, each block being an independent or closed unit of work, they can be discovered comparatively easily, since they are confined to a part of the work instead of all of it. It is necessary to re-examine and prove only the block in which the error exists, instead of re-examining the entire amount of deposits.

A typical form of block proof is illustrated on the preceding page.

### Blotter

A term commonly given among bank and brokerage bookkeepers to an original entry record of transactions, *e. g.*, securities sales blotter, securities withdrawals blotter. A journal or temporary record of transactions which are later posted to a ledger.

### Blue-Sky Laws

A popular name to designate the laws enacted by various states to provide for (1) the issuance of securities, (2) the flotation or sale of a particular issue or block of securities, and (3) the regulation of the business of dealing in securities. The main purpose of blue-sky laws is to prevent fraud in the sale and disposition of stocks, bonds, and other securities, and to protect the investing public, especially the inexperienced, from doubtful, fraudulent and worthless security promotions. These laws are an outgrowth of the recognition of the fact that the prin-

ciple of "*caveat emptor*" leaves the improvident and credulous public at the mercy of unscrupulous promoters, tipsters and stock salesmen who purvey doubtful or worthless securities.

Kansas in 1911 was the first state to enact a blue-sky law, and this was amended in 1913. It was followed by similar acts in other states, twenty-two of which were passed in various states in 1912-1913. On January 1, 1922, thirty-seven states had passed blue-sky laws.

The typical blue-sky law prohibits the issuance or sale of securities, except under conditions, with certain exceptions and exemptions for certain classes of securities, *e. g.*, government, state and municipal bonds, and also for certain types of transactions and persons. The security dealer must obtain an annual license which is granted after the dealer has answered an exhaustive questionnaire. Securities affected by the act may not be offered or sold without a permit from the state based upon the findings of some state official, *e. g.*, superintendent of banks, or secretary of state, who must be satisfied that the proposed offering of securities will not "constitute a fraud" or "work a fraud" upon the purchaser, and that the "proposed plan of business and proposed contracts contain and provide for a fair, just and equitable plan for the transaction of business, and in his (the official's judgment, promises a fair return on the stocks, bonds and other securities offered for sale by it."

The effect of blue-sky legislation has been seriously impaired by unfavorable court decisions in the interpretation of the acts. Many experts now believe that the business of marketing securities being predominantly interstate, should, in order that proper control may be had, be regulated by a Federal act, and not by acts of the various states. During the World War the Capital Issues Committee of the Federal Reserve Board constituted, in effect, a blue-sky commission by prohibiting the sale of new capital issues that were not directly concerned with war industries. Undoubtedly the time is not far distant when the issuance of securities will be made subject to Federal regulation and control, so that the honest promoter may better be separated from the dishonest one, and the legitimate business of raising capital distinguished from the illegitimate business of floating unsound securities, which rests upon capitalized hopes rather than upon valuable properties.

(See False Statement Acts.)

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**Board**

A term which refers to the board in a commission house upon which stock market quotations are posted, and also refers to the stock market itself. The New York Stock Exchange is sometimes called the Big Board, and the New York Curb Market the Little Board. (See Board Room.)

**Board Lot**

The unit of trade upon an exchange. On the New York Stock Exchange a board lot is 100 shares of stock, and \$1,000 par value of bonds.

**Board of Directors**

See Directors.

**Board of Trade**

A name frequently adopted by an organization formed to promote community, industrial and commercial interests, also known as Chamber of Commerce. The title is also sometimes given to a special exchange, *e. g.*, *Chicago Board of Trade* (q. v.).

**Board Room**

The customers' room of a broker's office where quotations from the principal markets, *e. g.*, Stock Exchange, Board of Trade, etc., may be seen immediately after the transactions are consummated. Tickers from the various markets are installed in these rooms and quotations are posted directly from the tape to the board. In some brokers' offices the display of quotations is made on a black-board; in others, the quotations are placed under the abbreviations by means of removable cards.

**Bob**

English colloquialism for the shilling. (See Shilling.)

**Bobtail Pool**

A pool in which the members act independently of one another and not through its managers. It is an informal pool in which each member closes out his contracts as he pleases, instead of the pool acting as a unit. (See Pool.)

**Boerse**

The German and Dutch spelling of *Bourse* (q. v.)

**Bolivar**

See Foreign Moneys — Venezuela.

**Boliviano**

See Foreign Moneys — Bolivia.

**Bolsa**

The Spanish spelling of *Bourse* (q. v.)

**Bonanza**

The Spanish word for prosperity and originally applied in finance to a fortunate discovery of a rich mine, the exploitation of which made the discoverer wealthy. It is now applied colloquially to any enterprise which earns an unusually large return on its invested capital.

**Bond**

An interest-bearing certificate of debt, being one of a series constituting a loan made to, and an obligation of, a governmentality or business corporation; a formal promise by the borrower to pay to the lender a certain sum of money at a fixed future date with or without security, and signed and sealed by the maker (borrower); a promise to pay two things: (1) a principal amount on a stated future date, and (2) a series of interest payments, usually semi-annually during its life. "All subdivided interesting-bearing contracts for the future payment of money that are drawn with formality, whether they are secured or unsecured, whether the interest is imperative under all conditions, or not, as in the case of income bonds."\*

The difference between a bond and a promissory note is aptly explained by F. A. Cleveland as follows: "The only way that a bond is distinguished from an ordinary promissory note is by the fact that it is issued as a part of a series of like tenor and amount, and, in most cases, under a common security. By rule of common law the bond is also more formal in its execution. The note is a simple promise (in any form, so long as a definite promise for the payment of money appears upon its face), signed by the party bound, without any formality as to witnesses or seal. The bond, on the other hand, in its old common-law form, required a seal, and had to be witnessed in the same

\*L. Chamberlain: *The Principles of Bond Investment*, p. 72.

manner as a deed or other formal conveyance of property, and though assignable was not negotiable. This is still the rule with many jurisdictions.\* A bond differs from an investment note only in the time which it has to run before maturity. Ordinarily the dividing line is five years; if the term of the funded debt exceeds this period, the issue is called bonds; if within this period, notes.

A bond differs from a share of stock in that the former is a contract to pay a certain sum of money with definite stipulations as to amount and maturity of interest payments, maturity of principal, and other recitals as to the rights of the holder in case of default, sinking fund provisions, etc., whereas a stock contains no promise to repay the purchase price or any amount whatsoever. The shareholder is an owner; a bondholder is a creditor. The bondholder has a claim against the assets and earnings of a corporation prior to that of the stockholder, and while the bondholder is an *investor*, the stockholder speculates on the success of the enterprise. The former's claim is a definite contractual one; the latter's claim is contingent upon earnings.

Numerous classifications of bonds are possible. The following classifications have been selected as the most important and useful:

1. Character of obligor. (a) Civil bonds. Examples: Government bonds, state bonds, municipal bonds, etc. (b) Corporation bonds. Examples: Railroad bonds, public utility bonds, industrial bonds.

2. Purpose of issue. Examples: Equipment bonds, improvement bonds, school bonds, terminal bonds, refunding bonds, adjustment bonds, etc.

3. Character of security. (a) Unsecured. Examples: Civil bonds, corporate debentures. (b) Secured. (1) Personal security. Examples: Indorsed bonds, guaranteed bonds. (2) Lien security. Examples: First mortgage bonds, general mortgage bonds, consolidated mortgage bonds, collateral trust bonds, chattel mortgage bonds.

4. Terms of payment of principal. Examples: Straight maturity bonds, callable bonds, perpetual bonds, sinking fund bonds, serial bonds.

5. Evidence of ownership and transfer. Examples: Coupon bonds, registered bonds, registered coupon bonds.

Bonds may also be classified according to tax exemption, conditions of payment of interest, convertibility, eligibility for invest-

ment by savings banks, insurance companies and trust funds, eligibility for securing government deposits, etc.

Specific kinds of bonds are described under separate titles, *e. g.*, Adjustment Bonds, Bearer Bonds, Collateral Trust Bonds, Debenture Bonds, Extended Bonds, First Mortgage Bonds, General Mortgage Bonds, etc.

For bibliography on bonds, see *Investment*. (See Bond Circular, Bond Values Tables, Coupons, Investment, Investment Market, Investment Media, Investment Securities.)

### Bond Accounts

The bond accounts of a bank are listed under *General Ledger* (q. v.). (See Securities Ledger.)

### Bond Amortization

See Amortization.

### Bond Circular

An advertisement issued by a bank, syndicate or bond house offering bonds for sale, or for the purpose of influencing purchases in investment bonds. A bond circular usually contains a description of the offering in considerable minutiae of detail. The elements of a well-planned bond circular are: Title of the bond and brief description of its security; dates of issue, maturity and interest payments; denomination and form; amount authorized and amount issued; state and Federal income taxes; conditions under which additional bonds may be issued; redemption price, if any; name of trustee; whether listed on stock exchange; guaranty, if any; description of properties of corporation issuing; past and current earnings and latest balance sheet; sinking fund specifications; territory of corporate operations; franchises, if any; engineer's and auditor's reports; attorney's opinion; whether legal for savings banks and trust funds; price and yield; reservation as to if, as, and when issued; reservation that orders are subject to prior sale; general reservation.

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F. CARLES: *Essentials of Investment: The Analysis of a Bond Circular*, 1919.

### Bonded Debt

*Funded Debt* (q. v.); the fixed debt of a government or business corporation represented by bonds.

### Bondholder

One who owns or holds bonds as an investment.

\* Funds and Their Uses.



**Bond House**

An institution engaged in<sup>a</sup> selling bonds and other securities; an *Investment Bank* (q. v.).

**Bond Interest Payments**

See Quarterly Disbursements.

**Bond Market**

See Investment Market.

**Bond of Indemnity**

A written instrument in which the signer (bondsmen) guarantees to protect another party against loss. It is usually used in securing a corporation against loss in the case of presentment in the future of a security lost by the owner and reissued by it. It is also used to protect the drawee bank when the drawer issues a stop-payment order against a certified check.

**Bonds as Legal Investments**

See Legal Investments for Savings Banks, Legal Investments for Trust Funds, Legality of Securities, Legal Opinion.

**Bond Values Table**

A mathematical table used by investors and bond houses to ascertain the value of bonds having a fixed maturity, when bought to yield a certain rate, or *vice versa*, to determine the yield or net return when purchased at a certain price. These tables are arranged to cover the periods which bonds with a definite maturity are most likely to run, and in practice, usually cover semi-annual periods from six months to fifty years. The range of interest rates is usually from 3 to 7 per cent.

Opposite is a page taken from a bond values table covering the 20-year period. From this table two things can be ascertained: (1) the price at which, say, a 4 per cent 20-year bond must be sold in order to yield, say 4½ per cent., and (2) the yield of a 20-year 5 per cent. bond bought at 103.20. By reference to the table it will be found that the answer to the first inquiry is 93.45, and the answer to the second is 4¾ per cent. (See Yield.)

**Bonus**

A gift; gratuity; something which is given free in addition to what is called for by a contract. (See Bonus Bonds, Bonus Stock.)

PER CENT PER AN.	3%	3½%	4%	4½%	5%	6%	7%
2.90	101.51	109.06	116.60	124.15	131.70	146.80	161.89
3.	100.00	107.48	114.96	122.44	129.92	144.87	159.83
3.10	98.52	105.93	113.34	120.75	128.16	142.98	157.81
3½	98.15	105.55	112.94	120.33	127.73	142.52	157.31
3.20	97.06	104.41	111.75	119.09	126.44	141.13	155.82
3½	96.34	103.66	110.97	118.28	125.59	140.21	154.83
3.30	95.63	102.91	110.19	117.47	124.75	139.30	153.86
3.35	94.93	102.17	109.42	116.66	123.91	138.40	152.89
3½	94.58	101.81	109.04	116.27	123.49	137.95	152.41
3.40	94.23	101.44	108.66	115.87	123.08	137.51	151.93
3.45	93.54	100.72	107.90	115.08	122.26	136.62	150.98
3½	92.85	100.00	107.15	114.30	121.45	135.74	150.04
3.55	92.17	99.29	106.41	113.52	120.64	134.87	149.11
3.60	91.50	98.58	105.67	112.75	119.84	134.01	148.18
3½	91.16	98.23	105.30	112.37	119.44	133.58	147.72
3.65	90.83	97.88	104.94	111.99	119.04	133.15	147.26
3.70	90.17	97.19	104.21	111.24	118.26	132.30	146.35
3½	89.51	96.50	103.50	110.49	117.48	131.46	145.44
3.80	88.86	95.82	102.78	109.74	116.70	130.63	144.55
3½	87.90	94.81	101.73	108.64	115.58	129.39	143.22
3.90	87.58	94.48	101.38	108.28	115.13	128.98	142.78
4.	86.32	93.16	100.00	106.84	113.68	127.36	141.03
4.10	85.09	91.86	98.64	105.42	112.20	125.76	139.32
4½	84.78	91.54	98.31	105.07	111.84	125.37	138.90
4.20	83.87	90.59	97.31	104.03	110.75	124.19	137.63
4½	83.27	89.96	96.65	103.35	110.04	123.42	136.80
4.30	82.68	89.34	96.00	102.66	109.33	122.65	135.98
4½	81.80	88.42	95.04	101.65	108.27	121.51	134.75
4.40	81.51	88.11	94.72	101.32	107.93	121.14	134.35
4½	80.35	86.90	93.45	100.00	106.55	119.65	132.74
4.60	79.22	85.72	92.21	98.70	105.19	118.18	131.16
4½	78.94	85.42	91.90	98.38	104.86	117.82	130.77
4.70	77.51	84.55	90.99	97.43	103.86	116.74	129.61
4½	77.57	83.98	90.39	96.80	103.20	116.02	128.84
4.80	77.02	83.40	89.79	96.17	102.55	115.32	128.08
4½	76.22	82.56	88.90	95.24	101.59	114.27	126.95
4.90	75.05	82.28	88.61	94.94	101.27	113.92	126.58
5.	74.90	81.17	87.45	93.72	100.00	112.55	125.10
5.10	73.86	80.09	86.31	92.53	98.76	111.20	123.65
5½	73.61	79.82	86.03	92.24	98.45	110.87	123.29
5.20	72.85	79.02	85.19	91.36	97.53	109.87	122.22
5½	72.34	78.49	84.64	90.78	96.93	109.22	121.51
5.30	71.85	77.97	84.09	90.21	96.33	108.57	120.81
5½	71.11	77.19	83.27	89.36	95.44	107.60	119.77
5.40	70.87	76.94	83.01	89.07	95.14	107.28	119.42
5.50	69.90	75.92	81.94	87.96	93.98	106.02	118.06
5.60	68.72	74.68	80.64	86.59	92.55	104.47	116.38
5.70	67.57	73.46	79.36	85.26	91.15	102.95	114.74
5.80	66.43	72.27	78.11	83.95	89.78	101.46	113.13
6.	65.33	71.11	76.89	82.66	88.44	100.00	111.56
6.10	64.25	69.97	75.69	81.41	87.13	98.57	110.01
6.20	63.19	68.85	74.51	80.18	85.84	97.17	108.50
6.30	62.15	67.76	73.36	78.97	84.58	95.79	107.01
6.40	61.14	66.69	72.24	77.79	83.34	94.45	105.55
6.50	60.14	65.64	71.14	76.64	82.13	93.13	104.12
6.60	59.17	64.62	70.06	75.50	80.95	91.83	102.72
6.70	58.22	63.61	69.00	74.39	79.78	90.57	101.35
7.	57.29	62.63	67.97	73.31	78.64	89.32	100.00

BOND VALUES TABLE

**Bonus Bonds**

Bonds issued in payment of, or to raise money for, promoters' services, or bonds issued by a municipality to induce a manufacturing industry to locate, or a railroad to enter, the town. The validity of such bonds is questionable. As investments these bonds are to be avoided. This title is sometimes also given to Soldiers' Bonus Bonds, as Soldiers' Adjusted Compensation Bonds, issued by various states to raise funds to pay bonuses to veterans of the World War. (See Railroad Aid Bonds.)

**Bonus Stock**

Shares of stock given as a bonus to purchasers thereof; for instance, a certain percentage of common stock is sometimes given.

with purchases of bonds or the preferred stock of a corporation. This is tantamount to selling bonds or stock at a discount. The laws of some of the states prohibit the issuance of bonus stock, or else make the holder liable for the par value thereof. (See Founders' Stock.)

### Book Credit

See Open Account.

### Bookkeeping

See Bank Bookkeeping.

### Books

See Bank Bookkeeping.

### Books Close

A term to indicate the day on which the transfer books of a corporation close in order that the transfer agent may make a correct list of the stockholders who are entitled to receive the dividend declared but not yet paid. All transactions that take place in the stock on the day the books close, other than those "for cash," are "ex-dividend," the dividend being reserved to the seller. (See Closing the Books.)

### Books Open

A term to indicate the day the transfer books of a corporation are open for the transfer of stocks, after having been closed over an interval for the purpose of determining the stockholders of record who are entitled to receive dividends, or to vote, etc. (See Books Close, Stock Transfers.)

### Book Value

The value of a business as a whole, or of one of its assets, as shown by its accounting records. For instance, the book value of a bond is the amount at which it is carried on the books of its owner. Originally it should be entered at cost. Subsequently the amount may be changed to bring it into agreement with its amortized value, and sometimes with the market price, whether lower or higher. There is danger in recording temporary fluctuations, because there can be no real profit or loss before actual sale.

The book value of a corporation is its net worth. Where there are various classes of owners, book value is sometimes expressed in terms of dollars per share of its common stock, after deducting the value of the preferred stock at par. The surplus whether

free, *e. g.*, available for dividends, or reserved for some specific purpose, *e. g.*, sinking fund, belongs to the common stockholders. Thus a corporation that has common stock totaling one million dollars (10,000 shares of \$100 par value), surplus of \$600,000, and a sinking fund reserve of \$200,000, has a book value of \$180.

The book value of a partnership is equal to the sum of the partners' capital accounts, plus undivided profits, if any. The book value of a sole proprietorship is shown by the proprietor's capital account after adjustment for profits or losses, contributions or withdrawals.

### Boom

A movement characterized by industrial and commercial activity, rising prices, and sentimentally by optimism and speculative enthusiasm until unwarranted high levels are reached, culminating in a reaction. Booms are both specific and general. There may be specific booms in land, stocks, bonds, or grain, acting independently of each other. A general boom is one in which the value of all properties, securities and commodities rise sympathetically. (See Business Cycle, Inflation, Prosperity.)

### Borrowed Bonds

Bonds are sometimes borrowed by one bank from another with or without commission because of a shortage of bonds eligible to secure Government deposits, or to serve as collateral for loans with a Federal Reserve bank, in its possession. An account should be set up in the general ledger to show the liability for borrowed bonds, if any.

### Borrowed Stock

A term applied to stock borrowed by brokers in order to make delivery on short sale contracts executed for customers. (See Short Sale.)

### Borrower

A person or concern to which money is loaned. There are as many classes of borrowers as there are classes of loans. (See Loans.)

### Borrowing Peak

A term applying to the period of a business when its borrowings from banks normally stand at the highest figure of the year. Most businesses are seasonal in char-

acter and require more capital at some periods than others. The periodic recurrence of the heaviest demand for working capital is called the *seasonal peak* and the borrowing peak is reached at this time. Bank credit and loan officers know when the borrowing peak for each class of trade occurs and plan to meet the requirements of their customers accordingly. While the borrowing peak varies among merchants and manufacturers, the borrowing peak for the largest number of enterprises occurs in the fall of the year.

### Borrowing Power

The capacity of an individual, firm or corporation to borrow, or to procure accommodation at a bank. (See Credit.)

### Boston Ledger

A form of ledger, also known as the progressive ledger, which has been almost universally adopted throughout banking practice. Instead of giving a page to each account, as in the case of a balance ledger, the names of the accounts (usually 20 to 30 on a page) are written or printed in alphabetical order vertically down the ledger sheet, with occasional spaces allowed for inserting new names. Preferably the names should be printed down the center of the page. The days run horizontally across the width of two pages, the column for each day being divided to provide for debit and credit postings.

The advantages of the Boston ledger are that it provides immediate availability of the balance of each account, which is carried forward each day and can be ascertained at a glance; quickness in posting and proving; and saving of space. Since there are about 20 to 30 accounts on a page, it is not necessary to thumb so many pages in order to locate a given account, as in the case of the balance ledger.

Its disadvantage is its inflexibility. It must be renewed frequently, not only because each page provides for a limited number of days, but also to allow for changes in titles of accounts.

### Bottom

When average prices reach the lowest level in a major swing, the market is said to be *touching bottom* or *dragging bottom*. The bottom usually is reached when, or shortly before, a business depression is at its worst, confidence impaired, sales and earnings small, prices low, and buying power

limited. It is recognized by a period of dullness and small price fluctuations, following a long, consistent, downward trend in prices. It is characteristic of the market to make two low dips at either end of the low level, before the reverse trend sets in. This is known as the double bottom, and is regarded as an indication that the downward price movement has been concluded. Inasmuch as the bottom marks the lowest ebb of business, it also heralds the beginning of the next major swing upward. (See Business Cycle, Movement, Speculative Cycle, Swings.)

### Bottom Dropped Out

A sharp decline in prices occurring when the market is already believed to be well liquidated, or *touching bottom*, thereby creating a panicky condition.

### Bottom Price

The lowest price; the price at which a single security, or the market average, reaches the lowest point in a single day's trading, or in a major or minor movement.

### Bottomry

A loan secured by a lien on a vessel. (See Bottomry Bond.)

### Bottomry Bond

A document by which the master of a ship pledges the vessel as collateral for a loan. This may become necessary when a ship is in a foreign port and certain repairs are indispensable to enable it to continue its voyage, and the master has no other means of raising funds. A master has no authority to bind a shipowner, except in case of necessity, and the lender must use caution to see that the repairs are urgent. Sometimes the master pledges both the vessel and its cargo for a loan. In this case the document is a *respondentia* bond. (See Respondentia.)

### Bourse

A name which applies quite generally to the stock exchanges in the principal cities of continental Europe. "Boerse" is the Dutch, and "Bolsa" the Spanish spelling. The word is usually capitalized in order to distinguish it from the French "la bourse," which means "the purse".

The principal Bourses of Europe are those in Paris, Amsterdam, Berlin, Vienna and Madrid. (See Paris Bourse.)



### Bradstreet's

The name of one of the principal mercantile agencies in the United States. This organization is also well known for its weekly magazine, "Bradstreet's," which reviews current business and credit conditions throughout the United States, and for its index-number of wholesale prices. (See Index-Numbers, Mercantile Agencies.)

### Branch Banking

The system of banking in which a banking institution conducts branches or district offices at locations other than at the main or head office, as distinguished from independent banking. In many foreign countries, notably in Canada, England, France and Germany, the branch system of banking prevails. In Canada, 17 chartered banks furnish banking facilities throughout the Dominion through about 4,650 district offices. In England, 75 per cent. of the banking business is handled by five banks, some of which have 1,500 or more branches. The Bank of France is required to have at least one branch in each French Department. The Bank of Germany maintains about 500 branches.

In the United States, on the other hand, banking is usually conducted by local institutions, owned by local capital, managed by resident officers, and having a single office. The Comptroller of the Currency has interpreted the National Bank Act to restrict a national bank to one office, but the act expressly permits state banks converting into national banks to retain any existing branches. National banks have, in some instances, acquired branches by the purchase of a state bank or trust company already having branches. In April, 1922, the First National Bank of St. Louis opened branch offices within the limits of that city, on the advice of counsel, on the ground that the charter does not prohibit branches so long as they are confined within the city in which the main office is located.

State banks and trust companies are usually permitted to organize a limited number of branches in the state of incorporation. Certain restrictions are imposed, such as minimum capital and number of branches per unit of population. In some states, state banks and trust companies are also permitted to establish branches in other states and in foreign countries. In New York state, for instance, state banks and trust companies may establish branches in another state or in a foreign country, upon approval of the

Superintendent of Banks in New York state, and if permitted by the banking officials of the other state or foreign country. To qualify, however, the institution must have a combined capital and surplus of at least \$1,000,000. National banks having a combined capital and surplus of at least \$1,000,000 may also establish foreign branches.

The branches of a bank are considered separate and distinct. Checks drawn on a particular branch are usually not payable at another branch or at the main office. If deposited for credit at another branch, they are cleared through the clearing house, in the same manner as a check drawn on a separate institution. Similarly, notes payable at a branch office may not be presented for payment at the head office or any other branch office.

Federal Reserve Banks are authorized by the Federal Reserve Act to establish branches both at home and abroad. Twenty-three branches of the Federal Reserve banks are already in operation in the United States, but none has been established in foreign countries to date.

The advantages claimed for branch banking over independent banking are greater unity of policy, uniformity in regional interest rates, larger capital behind each office, shifting of funds to where they are most needed, permits small localities to be served, mobilization of reserves for the general benefit, expert supervision from the home office, and smaller overhead costs. (See Bank of England, Canadian Banking System, Federal Reserve Bank Branches, Foreign Agencies, Foreign Branches.)

### Branch Banks

See Branch Banking.

### Branches

See Branch Banking.

### Branch Offices

See Branch Banking.

### Brassage

A charge formerly, but no longer made, by the principal commercial nations for coining bullion into standard money. England abandoned brassage charges in 1666 and the United States in 1875. The various United States mints will exchange gold coins containing as much fine gold as is contained in crude bullion brought to the mint, deducting a small percentage for assaying, refining,

and for the alloy. Gold coins are exchanged weight for weight for bullion of standard fineness without any deductions whatsoever. Brassage should not be confused with seigniorage. (See Alloy, Coinage, Mint, Seigniorage.)

### Break

An expression used to indicate a sudden and sharp undermining of prices occurring on a stock or other exchange.

### Break in the Market

See Break.

### Break Even

An expression meaning to conclude a transaction, purchase and sale, or vice versa, with neither a profit nor a loss.

### Bring Out

To place a new issue of securities on the market by an investment house or syndicate; to make a public offering of a new issue.

### British Banking System

See Bank of England, Joint-Stock Banks.

### British Treasury Bills

See Treasury Bills.

### Broad Market

A stock market expression used to denote that a large proportion of the stocks listed are being traded in. Broadness and activity accompany each other and usually indicate public participation. A broad market, as opposed to a narrow market, also applies to a particular stock, and indicates that frequent bids at close prices exist for that stock, that the sources of demand for it are many and diverse, and that trading in it is comparatively active.

### Broad Street

A street in the financial section of New York City, and by extension like Wall Street another name for financial New York.

### Broken Lot

Same as *Odd Lot* (q. v.).

### Broker

An intermediary or middleman who brings together buyers and sellers of the same security or commodity, and executes their orders, receiving a commission or brokerage there-

for. A broker is a specialist, and accordingly well versed in the technique of his particular market, knowing the sources of demand and supply, and being an expert on prices and price trends. There are many kinds of brokers, *e. g.*, stock, grain, cotton, produce, note, ship, real estate, mortgage, etc.

The relation between customer and broker is that of principal and agent, and in most cases, *e. g.*, stock exchange broker, the broker is a special agent.

A stock exchange broker is a member of the stock exchange, and is bound not only by law but also by the rules of the exchange. He acts as agent in the execution of buying and selling orders, and in the case of margin accounts, borrows money in behalf of his customers and is their creditor. For amounts loaned he is entitled to charge what the money costs plus a handling charge. Such a broker is entitled to hypothecate his customers' securities, but in no case to sell them, except in case of failure to respond to a margin call. (See Agent, Brokerage, New York Stock Exchange, Stock Jobber.)

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### Brokerage

A charge made by a broker for executing the orders of his customers. The basis of the charge usually is arranged beforehand, and may be a percentage of the selling price, a fixed fee, or a fixed fee per unit of sale. This term has been replaced largely by the word *Commission* (q. v.).

### Brokers' Board

A name sometimes given to a stock exchange because only broker members are admitted to the floor.

### Bronze Coins

One-cent pieces, sometimes known as coppers, and as pennies, are the only bronze coins now minted in the United States. One-cent pieces consist of 95 per cent. copper (45.60 grains), 4 per cent. tin (1.94 grains), and 1 per cent. zinc (0.48 grains), total weight, 48.00 grains. They are legal tender in amounts not exceeding 25 cents in any one payment, and may be redeemed in lawful money upon presentation in sums of \$20 or multiples thereof.

Two-cent bronze pieces, the coinage of which was discontinued in 1864, were of the same composition as the present one-cent pieces. The bronze coins of England and France have the same composition as those of the United States.

**Bucketeer**

A stock exchange, grain, cotton or other broker who does an illegitimate business. (See Bucket Shop.)

**Bucketing**

See Bucket Shop.

**Bucket Shop**

A dishonest and illegitimate brokerage house, which usually operates in stocks, grain or cotton. The essence of bucket-shop operations is the non-execution of customer's orders, or, if executed, the stocks are again bought or sold through a "house" account, or "dummy" account, so that at the end of the day's business no securities are held. The bucket shop takes a position in the market opposite that of the customer, and since the prevalent attitude of the amateur speculator is that of a *Bull* (q. v.), the position of the bucket shop is normally that of a *Bear* (q. v.). Consequently, a falling market is profitable for the bucket shop, while a rising market is apt to precipitate it into bankruptcy. The bucket shop is thus a place where the broker bets against the customer without his consent. It is a place where wagers are made on security quotations, and dealings are in profits and losses rather than in the securities themselves. Whereas the legitimate broker merely acts

as agent for his customer and executes his orders accordingly, the bucketeer stakes his judgment against that of the customer.

The success of the bucket shop consists in misleading its customers, accepting inadequate margins, upon the ability to get stock exchange quotations, and upon a falling market.

Anti-bucket shop laws have been enacted in most of the states, and the rules of every reputable exchange expressly prohibit the bucketing of orders, violations being punishable by expulsion.

**Budget**

A term originally applied to an itemized schedule of estimated government receipts from taxation and expenditures covering the fiscal year, prepared in advance as a guide or control for government finances. The use of the term is now extended to apply to any estimate of income and expenses, whether for a government, business, or household.

The purpose of a budget is to control expenditures with a view to keeping them in proper relationship with income and with one another, *i. e.*, to co-ordinate the financial plans and estimates in advance, in order to enable the management to check up actual with projected operations, and to provide for discrepancies as they occur. The business budget idea has been adopted by most progressive concerns in recent years as a scientific means of co-ordinating all activities, and predetermining profits.

The business budget is usually prepared by the treasurer or comptroller, acting in conjunction with a planning department, or a committee of department heads. Estimating

TYPICAL BUDGETS FOR VARIOUS INCOMES\*

For an average American family—two adults and two children

INCOME	NECESSITIES (Per Month)					ADVANCEMENT (Per Month)			SURPLUS (Ins. and Inc. Tax not deducted)	
	Per Year	Per Cent	Food	Shelter	Clothes	Operating Maintenance	Per Cent	Education Rec-reation etc.	Per Cent	Per Month
\$ 2,500	79.2	\$ 55	\$ 45	\$ 35	\$ 30	11.2	\$ 23.33	9.6	\$ 20.00	\$ 240
3,000	74	60	50	40	35	12	30.00	14	35.00	420
3,500	72	65	60	45	40	12.6	36.67	15.4	45.00	540
4,000	69	70	60	50	50	14.5	48.33	16.5	55.00	660
5,000	66	75	70	60	70	14.5	60.42	19.5	81.25	975
7,500	56	100	100	75	75	16	100.00	28	175.00	2,100
10,000	51	100	125	75	125	17	141.33	32	267.00	3,204
12,500	42.2	100	125	90	125	17	176.67	40.8	425.00	5,100
15,000	37.2	115	125	100	125	16.8	210.00	46	575.00	6,900
20,000	34.5	150	150	125	150	16	266.67	49.5	825.00	9,900
25,000	33.6	175	200	125	200	16.4	341.66	50	1,041.67	12,500
30,000	33	200	250	150	225	17	425.00	50	1,250.00	15,000
40,000	27.8	200	250	175	300	18.2	608.33	54	1,800.00	21,000
50,000	27.6	250	300	200	400	18.4	766.67	54	2,250.00	27,000

\* Published by Halsey, Stuart & Co., New York City.



expenses and sales is based upon the experience of former years modified by a consideration of current trade conditions and sales policy. A budget may be complete or par-

SAVINGS OF A \$5,000 MAN		
Items	King's Budget	"Technical's" Budget
Food .....	\$1,200	\$ 830
Rent .....	900	670
Clothing .....	400	400
Amusements .....	250	100
House Furnishings .....	150	100
Education .....	150	300*
Incidentals .....	350	1,000
	<hr/>	<hr/>
	\$3,400	\$3,400
Balance for Insurance and Investment .....	1,600	1,600
	<hr/>	<hr/>
Total .....	\$5,000	\$5,000

\* Plus Charity.

tial, *i. e.*, a master budget or sub-budget. A master budget comprehends the entire range of financial activities, while a partial budget is limited to estimates for a single department, *e. g.*, advertising.

The finances of the United States Government are controlled by a budget under the supervision of the Director of the Budget.

Tables of typical family (household) budgets for various incomes are presented herewith. (See Bureau of the Budget.)

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#### Budget Bureau

See Bureau of the Budget.

#### Building and Loan Association

A moneyed corporation similar in organization to a savings bank and designed to encourage saving and to permit its members to acquire homes on easy terms. The New York banking law defines a building and loan association as: "A domestic moneyed but non-stock corporation organized for the purpose of encouraging industry, frugality, home-building, the saving of money by its members, the accumulation of savings, the lending of such accumulations to its members, and the repayment to each member of his savings when they have accumulated to a

certain sum, or at any time when he shall desire the same, or the association shall desire to repay the same. The term, 'savings and loan association,' shall include every corporation, company or association doing business in this state and having for a part of its title or name the words 'building association,' 'building and loan association,' 'building and mutual loan association,' 'savings and loan association,' 'savings association,' 'co-operative loan association' or 'co-operative bank,' and every corporation, company or association whose shares are wholly or in part payable by a cumulative fund in regular or periodical installments."

They are the oldest form of co-operative credit institutions whose operations are almost exclusively confined to the local zone which they serve, and besides the titles mentioned above in the New York banking law are known as homestead aid associations, mutual loan associations and building societies.

There are several plans of operation, *e. g.*, the Philadelphia plan, and the Dayton plan, but all are modifications of the same principle. The associations are capitalized by selling shares to members on the installment plan. Certain weekly or monthly sums are due until the full amount paid with interest accrued equals the maturing value, which usually ranges from \$100 to \$200. Shares are given two values, a holding or actual value, and a withdrawal value. At maturity the actual value is the par value, and is the value upon which loans, not exceeding 85 per cent. thereof, are made. The withdrawal value is less than the actual value, and is the amount the owner may withdraw prior to the maturity of the share. In the Dayton plan, however, no penalties are imposed for withdrawal before maturity, since it is the intention under this plan to encourage non-borrowing members to purchase shares for the sake of the interest.

When accumulations are sufficient they are loaned to the member who offers the highest rate of interest, *i. e.*, the highest bonus in addition to the regular rate, with the shares as collateral, which are assigned to the association. In the meantime interest is paid upon the loan along with unpaid installments on the stock until it matures, when it is applied against the principal of the loan and any balance is returned to the member.

Building and loan associations furnish one of the best aids to compulsory periodic savings yet invented, and usually have proved

profitable for their members. In 1918 there were 7,484 of these institutions in the United States with total assets of \$1,898,344,346.

### **Bulge**

A stock market expression to denote a small and sudden, but unsustained, advance in security prices.

### **Bull**

A common term used among operators in various markets, and applied to a person who believes that security or commodity prices will rise, and who buys on that assumption. "One who buys stock with the expectation of making a profit through a rise in price; he is said to be 'long of stock'."\*

Bulls are market optimists and take a favorable or constructive view of business conditions. On the grain and cotton markets, however, a bull may be one who expects a rise in prices through a blight, flood, drought, frost, or some other unfavorable development that causes higher prices by creating a shortage.

One may be a bull on a particular security, but without being "bullish" on the entire market. It is said that some persons are always bulls and some persons are always bears. The successful trader is chronically likely to be neither one nor the other, but adjusts his attitude, whether it is "bullish" or "bearish" to fundamental conditions.

### **Bull Campaign**

A concerted movement among a group of operators to force prices up without entering into a pool. (See Campaign.)

### **Bull Clique**

A stock market expression used to denote a combination of individual operators or financial interests working for an advance in prices. (See Clique.)

### **Bullion**

Metal in the mass; gold or silver in the crude or in the form of bars, lumps, ingots, or nuggets, whether of standard or other fineness, as distinguished from minted coins, which are known as specie. Gold bullion, usually in the form of bars, is employed in the settlement of international balances, its value being determined by its weight and fineness. (See Assay Office, Coinage, Mint.)

\*Goldman: A Handbook of Stock Exchange Laws.

### **Bullion Broker**

A person or firm which deals in gold bullion for the purpose of supplying bankers and exporters who require it for the purpose of shipment, *i. e.*, settling foreign trade balances, or to take advantage of a higher price in a foreign market. Sales are also made to jewelry and dental manufacturers. Gold bars also may be purchased from the various United States Assay Offices in lots of \$5,000 or over. Smaller amounts must be purchased from bullion brokers at a premium, varying according to weight and fineness. New York City and other banks located where United States assay offices are established, supply their correspondents with gold bullion.

### **Bullion Points**

See Gold Points.

### **Bullion Value**

The commercial or market value of a coin as metal, as distinguished from its face or coin value. Among gold standard countries, gold being the standard of value, the bullion or commercial value of a gold coin (omitting abrasion), is identical with its face value. This is due to the fact that since gold is coined without limitation as to quantity and has unlimited legal tender power, parity between its value as bullion and value as coin is assured. The bullion value of silver coins (dollars, half dollars, quarters and dimes), and of minor coins (5c and 1c pieces), is considerably less than the face or coin value, the difference being dependent upon the current market price of the metal contained in these coins. It is for this reason that the legal tender quality of subsidiary silver and minor coins is limited. (See Gold Standard, Silver Dollar, Token Money.)

### **Bull Market**

A market in which the bulls are in ascendancy and optimism and rising prices prevail. In such a market short selling is reduced to a minimum, sales being confined largely to long stock. While there are always technical reactions in a bull market, due to profit-taking on long stock and scattered short selling, there is always the expectation that the market will move to higher levels. The term usually applies to long-term swings of the market. In the past, the average bull market in stocks has run about two years. Recent bull markets have been

those of 1904-1905, 1908-1909, 1915-1916, 1918-1919, and 1922. (See Speculative Cycle.)

### **Bull Pool**

See Bull Clique, Pool.

### **Bunched**

This term has two meanings:

(1) An expression used to denote consecutive sales of the same security at the same or different prices recorded on the tape of a stock exchange ticker.

(2) When brokers combine orders from different customers for execution in a single transaction, they are said to be "bunched". This practice is contrary to the rules of the New York Stock Exchange.

### **Bunco**

The practice of cheating or swindling by so-called confidence men, who play upon the credulity and avarice of their victim. After winning the confidence of the intended victim, the favorite practices are to induce him to purchase worthless stock, to cash a "bogus" check, or impose counterfeit money upon him. (See Swindling.)

### **Bunco Game**

See Bunco.

### **Buoyant**

A stock market expression used to denote that prices have a rising tendency.

### **Bureau of Crop Estimates**

See Crop Reports.

### **Bureau of Engraving and Printing**

One of the bureaus under the control of the Treasury Department and located in Washington, D. C. Its function is to design, engrave, print and finish the various kinds of United States paper money, United States bonds, postage stamps, postal cards and envelopes, and revenue and customs stamps. It also engraves and prints pension certificates, commissions, disbursing officers' checks, and portraits of deceased congressmen and senators, when authorized by law. (See Treasury Department.)

### **Bureau of the Budget**

One of the bureaus of the Treasury Department of the United States created by an

Act of Congress, passed June 10, 1921. The bureau is under the supervision of the Director of the Budget, and prepares for and submits to the President the annual national expense budget. This bureau is empowered to "assemble, correlate, revise, reduce, or increase the estimates of the several departments and establishments."

### **Bureau of Trusts**

One of the bureaus of the Alien Property Custodian upon which "rests the continuing responsibility of conserving, administering, and accounting for the properties of enemies as long as the office exists. Although the Bureau of Trusts is the largest bureau in the office of the Alien Property Custodian, it would have been many times its actual size but for the depositaries which Congress provided for in the (Trading with the Enemies) act. Over 500 banks and trust companies have been so designated throughout the country and its territories and insular possessions." (Kirkbride, Sterrett and Willis: *The Modern Trust Company*, p. 16.)

### **Business Barometers**

Trade data; indices of industry and commerce; statistical indicators of business conditions; fundamental and comparative business statistics by which business volume, activity, credit supply, price trends, profit prospects and investment opportunities may be measured. Like weather barometers which forecast meteorological conditions, business barometers are statistics used as instruments to forecast business, credit and investment tendencies.

A vast amount of statistical data relating to business is now prepared in the United States by the Government, co-operative trade associations, individual businesses, trade journals, and private economic and statistical bureaus engaged in the business of business analysis and forecast. While the United States has made important progress in statistical compilations in the past ten years, and is probably ahead of any other nation, from the viewpoint of the barometrician the gaps in business data still leave much to be desired.

Business barometers when analyzed and interpreted by trained business men and business analysts afford a basis for the scientific appraisal and forecast of business conditions and prospects which is particularly useful in business planning. The chief risks of business consist of estimating consump-



tion, production costs, and prices. Sales policies and the production programs largely depend upon knowing probable sales and prices in advance. In a word, the business man is in a position to eliminate much of the risk of business if he can successfully forecast price trends which are equally important on the buying and selling sides. In the lumber industry, for instance, the necessary barometers for accurately predicting future price trends on the supply side would be: (1) production, (2) shipments, (3) accumulated stocks on hand, (4) invisible stocks, (5) cost of production, and (6) raw material reserved. On the demand side the barometrician would want to have the following data: (1) current orders, (2) current deliveries, (3) purchasing power, (4) potential demand as shown by trade reports from the customary markets, *e. g.*, building, furniture, vehicles, etc., and (5) changes in public taste.

Barometers are sometimes divided into three classes—business, investment, and credit. While the separation may be advantageous from some points of view, it should be recognized that they are mutually interdependent. Good business conditions depend upon favorable credit conditions; likewise security prices are dependent upon the state of business and credit.

New York Stock Exchange quotations probably constitute the best single "all-purpose" business barometer because they represent the composite judgment of hundreds of business men, investors and professional speculators. The history of price movements on the New York Stock Exchange shows that these movements anticipate with amazing accuracy business and profit trends in the United States. Stock exchange price movements usually foreshadow or "discount" changes in the business situation from three to nine months ahead, and if properly interpreted became a valuable barometric index of future conditions. It also indicates the channels in which capital may be most profitably invested, as well as the errors of promoters, bankers and financiers in the misapplication of capital.

Business barometers are sometimes subdivided in four classes: (1) measures of business activity (volume of trade), (2) measures of production, (3) measures of consumption, and (4) measures of price trends and profit prospects. While these are naturally dependent on one another, it may prove useful to keep them distinct. They are presented as follows:

#### MEASURES OF BUSINESS ACTIVITY (VOLUME OF TRADE)

1. Railroad gross earnings.
2. Car loadings.
3. Bad order cars.
4. Bank clearings.
5. Debits to individual accounts.
6. Imports and exports.
7. United States postal receipts.
8. Unfilled steel tonnage.
9. Port clearances and idle shipping tonnage.
10. Shipments of grain and live stock.
11. New enterprises.
12. Alien migration.
13. Unemployment.

#### MEASURES OF PRODUCTION

1. Government crop reports of estimated and actual yields.
2. Pig iron.
3. Steel ingots.
4. Copper.
5. Building contract awards (permits).
6. Bituminous coal.
7. Lumber.
8. Crude petroleum.
9. Active cotton spindles.
10. Kilowatt hours generated by public utilities.

#### MEASURES OF PRICE TRENDS AND PROFIT PROSPECTS

1. Index numbers of wholesale prices. (See Index Numbers.)
2. Prices of basic commodities, *e. g.*, grains, cotton, steel, pig iron, copper, petroleum, coal, rubber, live stock, lumber, silk, etc.
3. Average prices of bonds and stocks.
4. Reports of earnings of basic industries, public utilities and railroads.
5. Dividend disbursements of key industries.
6. Business failures.
7. New domestic capital issues.
8. New incorporations.

#### CREDIT BAROMETERS

1. Federal Reserve System ratio of reserves to liabilities.
2. Ratio of deposits to loans for member banks.
3. Money rates for: (a) call loans, (b) time loans, (c) bankers' acceptances, (d) commercial paper, (e) open market transactions.
4. Federal Reserve rates of rediscount.
5. Federal Reserve notes in circulation.
6. Official estimates of monetary stock.

7. Gold movements.
8. Gold production.
9. Excess bank reserves.

#### INVESTMENT BAROMETERS

1. Money rates.
2. Average bond prices.
3. Average stock prices.
4. Municipal bond sales.
5. Activity of the New York Stock Exchange.
6. New capital issues.
7. Refunding issues.

(See Business Cycle, Business Forecasting Services, Fundamental Conditions, Investment, Market Sentiment, Speculative Cycle.)

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### Business Cycle

An interval which embraces alternating periods of business prosperity and depression. It is one of the most significant phenomena of the capitalistic regime and appears to be an outgrowth of our modern credit system in which production takes place in advance of consumption. Business volume and commodity prices do not remain constant, but are subject not only to seasonal variation, but to long-term fluctuations. In other words, business travels in waves, and excesses of activity appear to be counteracted by excesses of depression. Borrowing from the physical sciences, Mr. R. W. Babson, one of the best-known business forecasters, constructs his theory of the business cycle on the principle that action and reaction are equal, or that periods of business prosperity in so far as they are in excess of normality, are compensated for by periods of depression.

According to this last authority the business cycle comprises four distinct phases which are called the period of: (1) prosperity, (2) decline, (3) depression, and (4) improvement. S. S. Huebner in his book entitled "The Stock Market," divides the cycle into five periods as follows: (1) business depression, (2) reviving business, (3) new enterprises, (4) intense prosperity, and (5) violent liquidation in security markets.

The author divides the business cycle into more or less distinct periods, enumerated and described as follows:

(1) Crisis—This is the turning point or decisive moment which marks the collapse of the period of prosperity, inflation, extravagance and high prices. It is usually initiated by a buyers' strike as a reaction from high prices. Before the inauguration of the Federal Reserve System a crisis was likely to be followed by a panic. This is primarily a financial phenomenon characterized by a collapse of the credit structure, universal demand for money payments, lack of confidence in the ability of debtors to pay debts, and usually by a series of important business, brokerage and banking failures. Banks are the storm centers of panics, since everyone is experiencing difficulty in securing an adequate supply of cash. If important failures occur, "runs" are likely to be made upon the banks, and a great strain is placed upon the banking system. Since no panics have occurred subsequent to the establishment of the Federal Reserve System, and since reserves are concentrated and mobile, and hand-to-mouth currency readily available through rediscounting, it is believed that the country is now panic-proof.

(2) Emergency Liquidation—Following the crisis (and panic if there is one) comes a period of emergency liquidation. During the previous period of prosperity production has been at a high rate, leading to an overstocking of goods at high prices. When the crisis announces the end of the period of high prices, businesses are eager to unload or to "get out from under" before prices decline further. There is, moreover, an oversupply of goods and a shortage of cash. Quantities of goods are, therefore, placed on the market for what they will bring.

(3) Depression—This is a period of "hard times" in which the disturbance in the normal equilibrium between supply and demand is still felt. Prices are low and efforts are made to work off the excess of goods. There is a drastic curtailment of production, resulting in widespread unemployment, reduction or elimination of profits, accumulation of money supply through the deflation of credit, and a general practice of economy. There is a constant "feeling for the bottom" in the price movement.

(4) Readjustment—When the bottom of the price movement has been struck, the period of readjustment begins. It is characterized by irregular and uneven price movements which are in process of stabiliza-



tion and harmonization; also by sharp competition, lower production costs, elimination of the inefficient (numerous business failures) but with the return of more cheerful sentiment.

(5) *Recuperation or revival*—The period of readjustment blends so imperceptibly into the recuperative phase that the latter is not easy of detection. By this time the deflation process has been completed, bank reserves are high and interest rates are low. Lower prices begin to stimulate demand, first noticed at the retail stores. Recuperation may be hastened by such propitious events as bumper crops, increase in foreign trade, or a boom in building. The increase in retail demand communicates itself to the wholesaler, jobber and manufacturer, until normal conditions reappear.

(6) *Prosperity*—The economic forces which account for the revival also account for prosperity except that they act more intensely. As the demand for goods increases industry picks up, more labor and capital are employed, as a result of which purchasing power is increased. This, in turn, stimulates demand, and because stocks have become depleted production and deliveries lag behind orders. This condition leads to increased production costs and contract renewals at higher rates. As costs advance, prices, wages, rents and interest rates rise. A large volume of business is being done on a rising market and business men are making large profits and laborers high wages. For a time, at least, the prosperity is cumulative, since purchasing power increases in proportion.

(7) *Over-extension and speculation*—Unfortunately the period of prosperity does not last. It contains elements of danger. Sooner or later businesses find existing facilities inadequate to supply the demand. This leads to an expansion of facilities acquired at high costs. Output is increased, but also at higher costs. The program of expansion has tightened credit and raised interest rates, but the lure of profits, due to rising markets, provides a powerful incentive for businesses to produce at the maximum. Prices rise, profiteering sets in, extravagance in consumption appears, and credit becomes inflated. In the final stages, costs rise more than selling prices, due to the decline in the efficiency in labor, rising raw material prices, and higher interest rates. Speculation for further rise in prices tends to make prices rise higher than warranted, finally resulting in a buyers' strike. This leads to a crisis.

While a business cycle is a rhythmical phenomenon, it has no definite periodicity, *c. g.*, three years, seven years, or twenty years. No two business cycles are alike, but rather consist of a different combination of factors. The accompanying chart, published by the Standard Statistics Company (New York City), shows the business cycles that have occurred in the United States since 1901. The business line in this chart is to be correlated with the curve of stock prices and money supply. It will be noted that the money supply line is the basis, or signal, upon which the other two lines take their cue. Just as the money supply line precedes the movement of the line of stock prices (though in opposite direction), so the line of stock prices precedes the business line in both the upward and downward swings. (See *Business Barometers, Business Forecasting Services, Speculative Cycle.*)

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#### Business Failures

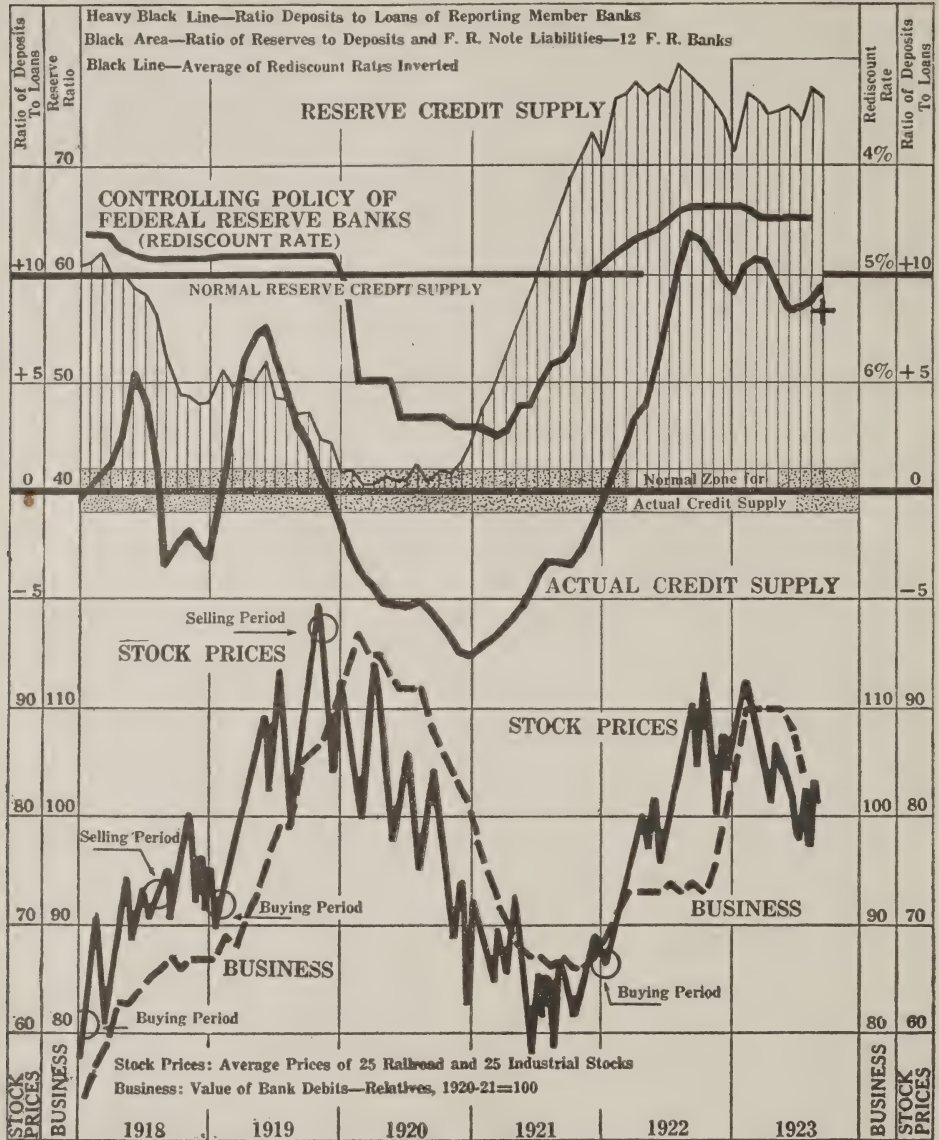
See Failures.

#### Business Forecasting Services

If cyclic movements of prices in commodities, securities and money actually occur, as explained under the term *Business Cycle* (q. v.), and business conditions and price movements are subject to analysis and interpretation as explained under the term *Business Barometers* (q. v.), then price movements become, in part at least, amenable to scientific forecast. While most business men recognize the validity of the principles underlying the business cycle and the importance of watching business barometers, few regard themselves as capable of analyzing and interpreting available data first



MOVEMENTS IN BUSINESS, CREDIT, AND STOCKS\*



EXPLANATION OF CURVES IN CHART

HEAVY CURVE ending with + sign depicts the ratio of deposits to loans of some 800 reporting Federal Reserve Member Banks, after corrections have been applied for gold deposits. The curve is plotted in percentage deviation from normal. Normal is estimated on the basis of experience during the period December, 1917-November, 1922, and is shown by the heavy horizontal line which bisects the black shaded area labeled "Normal Zone for Actual Credit Supply." The cross shows the position as of September 1, 1923.

LIGHT CURVE shows the reserve credit supply as indicated by the ratio of total reserves of the 12 Federal Reserve Banks to their deposit and Federal Reserve Note liabilities combined. The area marked with vertical lines, merely emphasizes the volume of the reserve credit supply. The curve is charted on a scale showing the actual reserve ratio. Normal (shown by the black horizontal line through the upper section of the chart) is arbitrarily placed at 60.

SOLID CURVE in the UPPER section of the chart depicts the average rediscount rate of the 12 Federal Reserve Banks for 60-90 day commercial paper. This curve is plotted on an inverted scale, so that it will move in rhythm with the other curves. It shows the DISPOSITION of the Federal Reserve authorities to allow the reserve credit supply to be utilized.

SOLID CURVE in the LOWER section of the chart shows the average price of 25 railroad and 25 industrial stocks. It is plotted on a dollar scale.

BROKEN CURVE shows the trend of business activity as reflected by debits to individual bank accounts outside New York City. This curve is charted in relatives, the average month for the period 1920-21 being taken to equal 100. Bank debits not being available for the year 1918 and 1919, the curve for those years is based on bank clearings.

\* Permission of Standard Statistics Company, New York City.

hand. Business forecasting has, therefore, become a specialized profession.

Several statistical organizations are engaged in the business of selling business, speculative and investment forecast services. The best known of these organizations are: Babson Statistical Organization, Inc. (Wellesley Hills, Mass.), Standard Statistics Company (New York City), Brookmire Economic Service (New York City), Harvard Bureau of Economic Research (Cambridge, Mass.), Bankers' Economic Service (New York City), and Moody's Investment Service (New York City). In addition, there are bulletins published usually for free distribution by banks, stock exchange commission houses and bond houses.

Business and investment forecasting services are sold out of recognition of the fact that the largest profits in business and in speculative commitments are derived from anticipating price changes. If forecasts are accurately made they may become the source of increased profits for the subscribers. These services are usually divided in several parts in order to make an appeal to business men who are primarily interested in commodity price changes and general business conditions, to speculators who are interested in stock and commodity market prices, and to investors who are interested in bonds. The Standard Statistics Company, for example, offers a daily trade service which is a survey and forecast of developments in the general business field, including the financial, commercial, legislative, price and labor outlook, as well as the various key industries which lie at the base of all business. Included with this service is a chart market index which is a cross-section of general business conditions, showing graphically the trends of credit supply, stock market averages and business. It is a condensed picture of security and business prospects. The appeal of this service is to the executive, sales department and purchasing agent. A separate service is offered to appeal to the stock broker, speculator, investment specialist and financier, and to the investor in railroad securities.

The specific services offered by these organizations separately, in combination, or complete, are listed below:

#### BABSON

Weekly letter.  
Speculative bulletin.  
Investment bulletin.  
Desk chart (Compositplot).  
Labor bulletin.

Advice to sellers.  
Advice to buyers.  
Foreign trade.

#### STANDARD STATISTICS

Corporation records.  
Daily trade service.  
Market index.  
Facts and forecasts.  
Railroad investment service.  
Unlisted and local securities service.  
Income tax service.

#### BROOKMIRE

Investment service.  
Commercial service.  
Commercial investment service.

#### BANKERS' ECONOMIC SERVICE

Weekly digest review.  
Weekly commodity industrial bulletin.  
Foreign nations.  
Monthly price level bulletin.  
Quarterly price level analysis.  
Base analysis on commodities and industries.

#### HARVARD BUREAU OF ECONOMIC RESEARCH

Quarterly review of economic statistics.  
Weekly letter.

### Business Man's Investment

Bonds or stocks of intrinsically sound companies, the earnings of which, and, therefore, security values, are affected by business conditions and must be constantly watched. Such investments are suitable only for persons in close touch with business conditions, and who are able to interpret the effect of changes in business conditions upon such holdings. (See Business Man's Risk.)

### Business Man's Risk

A risk such as is involved in a business or security, the income from which is uncertain, but which promises large returns under favorable management. A risk which a business man is warranted in taking because of his knowledge of business conditions, the management of the concern in which the investment is made, and his ability to protect himself in case of unfavorable developments. But while a business man is justified in taking such a risk it would be an unwise risk for others not familiar with these facts. (See Business Man's Investment.)

### Business Paper

A term to designate that class of *Commercial Paper* (q. v.) which is given in pay-

ment of merchandise and discounted by the payee at his bank. Trade acceptances may be classified as business paper.

### Business Risk

An expression used by credit men in contra-distinction to moral risk and property risk. The business risk is that element of a credit risk which depends upon the business ability of the managers of the concern under consideration. The chief test of this risk is capacity to produce profits over a period of time. In measuring or testing a business risk the credit man investigates the following points: (1) Is the business sound, legitimate and stable, or illegitimate and risky? (2) Is the volume of business declining, advancing or stationary? (3) Are modern production and sales methods being used? (4) What reputation does the product of the concern enjoy in the trade? (5) What has been the ratio of profits to invested capital for, say, the past five years? (6) What is the (a) range of fluctuation of gross profits, (b) percentage of operating expenses to gross profits, (c) range of fluctuation of this percentage, (d) margin of profits above operating expenses and its range of fluctuation? (See Moral Risk, Property Risk.)

### Business Solvency

A condition which exists when the *total* assets of a business exceed the *total* liabilities, as distinguished from *Financial Solvency* (q. v.). A business may have business solvency and yet be financially insolvent. From the standpoint of credit, a business must be solvent from both points of view, in order to qualify as a good credit risk. Net worth is the measure of business solvency and net working capital is the measure of financial solvency. (See Financial Solvency, Solvency.)

### Buyer's Option

See Option.

### Buying Back

Stock which has been sold short must be bought back, or "covered" in order to complete the transaction. Buying back is purchasing a security which has previously been sold short. (See Short Sale.)

### Buying in Under the Rule

See Under the Rule.

### Buying on a Scale

Stock is frequently bought on a scale for the purpose of averaging the purchase price on the principle that the low point of a given market movement cannot be exactly predicted. Buying orders are placed with a broker for execution at prices representing regular intervals downward, *e. g.*, to buy 100 shares of U. S. Steel at 90, 87½, 85, 82½, etc. (See Averaging.)

### Buying Order

An order given to a broker or banker to purchase securities, commodities, etc., with certain specifications. Among brokerage houses there are three ordinary classes of orders according to the time limit. When no time limit is specified the order is considered to be good only for the date it is given, and is known as a *Day Order*. Orders are also placed with instructions, *Good till cancelled*, or *Good till countermanded* (G. T. C. orders). Orders may also be placed with a specified time limit, *e. g.*, one week, or one month.

As to price, buying orders may be "at the market," or limited, *i. e.*, a stated price may be specified. (See Orders.)

### Buying Outright

The purchase of securities for immediate delivery for which full cash payment is made. It is the contrary of buying on a margin.

### Buying Rate

A term used among foreign exchange banks and brokers to indicate the rate at which they agree to buy foreign currency, cable transfers, or bills of exchange on foreign countries for stated maturities and amounts, as distinguished from the quoted selling rates, which obviously are higher. Different rates are quoted for cables, checks, and time bills. (See Cable Rate, Check Rate, Long Rate, Short Rate.)

### By-laws (of Banks)

Among national banks power to adopt by-laws is conferred upon the directors. By-laws must not be inconsistent with the National banking laws or regulations of the Comptroller of the Currency, who prescribes that the by-laws state that directors be required to meet at least monthly, and that loans made by the loan and discount committee receive the approval or disapproval of the board at their meetings, record of the action to be noted in the minute book.



## C

### Cable Rate

The rate quoted for a *Cable Transfer* (q. v.) as distinguished from the check (demand draft) rate, and the rate for 30, 60 and 90 day bills of exchange. The cable rate is always higher than the check rate, or rate for time bills, because the bank selling the cable transfer does not have use of its funds deposited abroad as long as it would in the case of issuing a check or time draft. In the case of the check, the foreign bank cannot draw against the selling bank or charge its account until the advice arrives (10 days to 6 weeks later), or in the case of a time draft, until its maturity. In the case of a cable transfer the selling bank's account is charged by the bank ordered to make the disbursement, just as soon as the funds are paid to the beneficiary. Thus, the cable rate may be regarded as equivalent to the check rate plus interest that is saved while the check is transiting, modified by the market situation in cable funds.

From the standpoint of a purchaser, the higher rate for a cable transfer represents the cost of the privilege of deferring the purchase of funds until actually needed abroad, and leaves him in a position to take advantage of any intervening decline in rates. The cable rate does not include the cable charges which are borne by the purchaser. (See Cable Transfer, Check Rate, Long Rate, Short Rate.)

### Cables

A general term given to communications usually in code, and particularly to orders to pay money, sent abroad over transoceanic cable lines, or by wireless. (See Cable Transfer.)

### Cable Transfer

A means by which a bank or foreign exchange dealer enables its customers to remit funds abroad immediately. Suppose "A" in New York wishes to remit a thousand pounds to "B" in London. "A" will apply to a foreign exchange banker for a cable transfer ordering payment to be made to "B" in London. Upon the deposit of \$4,866.50 (assuming the rate to be normal), plus cable charges, the New York bank will cable

its correspondent in London and authorize it to pay one thousand pounds to "B" and charge to its (the cabling bank's) account for the amount. In practice, customers having accounts with a bank maintaining a foreign exchange department do not pay for the cable transfer until the following day, or the day when the funds are paid abroad. When the cable reaches the London correspondent, the latter notifies "B" to call for the funds, and upon identification pays him.

Cable transfers may be made payable in dollars or in a foreign currency, usually the latter. When in a foreign currency, the rate quoted includes the bank's commission. For dollar cable transfers a commission (usually  $\frac{1}{4}$  of 1 per cent.) is charged in addition to cablegram charges. The principle of the cable transfer is the same as the domestic telegraphic money transfer, except that in the latter, foreign exchange rates are not involved.

Cable transfers are usually dealt in by bankers in order to take advantage of temporary money market conditions here or abroad, or to provide funds for meeting withdrawals from balances held abroad.

### Call

This term has four meanings:

(1) A demand for the payment of an installment on the purchase price of bonds or stocks subscribed for, the time of call usually being discretionary with the issuing organization, but sometimes according to definite prearranged dates. The subscribed but uncalled capital of a corporation may be called at any time, but only in accordance with the agreement made with subscribers when the stock was first allotted.

(2) A contract, which for a consideration, gives the holder the right to purchase from the person signing the call a specified security or commodity within a certain period at a stipulated price. A call is sold and executed by a person who does not believe that the market price of a security or commodity, within the duration of the call, will go higher than the price specified in it, and that therefore the holder will have no object in exercising his right to demand delivery of the security or commodity. Contrarywise, the buyer and holder of the call

predicts that the price of the security (or commodity) will advance during the contract period. Being primarily a speculator, and not desiring to invest his money outright, he purchases the right to buy a security (or commodity) at the stated price, and if his prediction is verified, makes a profit by calling for delivery of the security (or commodity) at a price lower than that prevailing in the market. It is often used as a form of insurance, *i. e.*, to protect paper profits and to prevent large losses. A call is not permitted on the floor of the New York Stock Exchange, but these contracts are often engaged in outside of the Exchange and executed by stock exchange members. In London, calls are a much more customary transaction than in New York. (See Put.)

- (3) *Comptroller's Call* (q. v.).
- (4) *Margin Call* (q. v.).

### Callable

A term applying to obligations such as bonds or preferred stock which the issuer or obligor retains the right to prepay, that is, to retire before maturity. A penalty usually attaches to the calling of bonds before maturity, the issuer paying a premium. (See Callable Bonds.)

### Callable Bonds

Bonds which may be called for redemption, *i. e.*, retired before compulsory maturity, as a result of the option exercised by the debtor, recited in the face. Bonds are frequently issued subject to call, *i. e.*, redemption in whole or in part on any interest date, upon proper notice. Because of annoyance to investors, the issuer exercising the right of redemption is usually forced to pay a premium upon redemption, *i. e.*, some specified amount above par value. This is to compensate the investor for the disadvantage he is put to in keeping track of his investment and of seeking a new investment medium, perhaps on less favorable terms, and for loss of interest in case notice of redemption escapes the attention of the holder, since these bonds do not bear interest after the redemption date. Callable bonds are not likely to reach a market price above that at which they are subject to call.

There are several reasons why a debtor organization may wish to retain the redemption privilege when issuing its bonds. It is possible that the issue may be refunded at a lower rate because of a relaxation in money rates, or for sinking fund purposes. The

issuer may also desire to modify its scheme of financial organization, or to finance an expansion, and therefore to consolidate its mortgages.

These bonds are also known as *Optional Bonds and Redeemable Bonds*. (See Optional Bonds.)

### Called Bonds

Bonds which have been called for redemption (by lot or otherwise). (See Callable Bonds.)

### Call Loan

A loan which either the borrower or lender may terminate at will. Call loans are practically restricted to stock (and other) exchange brokers and are sometimes known as "Stock Exchange," and "street" loans. While all call loans are technically subject to immediate termination at the option of the borrower or lender, distinction should be made between loans at "sharp call" and at "slow call." In the former, the right of the lender to call is used without fear or favor. They are "cold-blooded." In the latter, there is an informal tacit understanding that the loan will not be called except as a last resort. Many stock exchange loans run for months without being called.

In New York Stock Exchange practice, if a lending bank wishes to call a loan, notice must reach the borrower before 12:30 P. M. in order to compel payment upon the same day; otherwise payment need not be made until the following business day. On the other hand, if a borrower wishes to liquidate a call loan, negotiations for payment must be made before 1 P. M. in order to avoid liability for another day's interest. (See Call Money Market, Renewal Rate.)

### Call Loan Rate

The rate at which money lent at call bears interest. This is subject to change each day, if the renewal rate is changed. (See Call Money Market, Renewal Rate.)

### Call Money

Money lent by banks, usually to stock exchange brokers, which may be called, *i. e.*, demand may be made for payment, at any time. Call Money is also known as day-to-day money, and as demand money. (See Call Loan, Call Money Market.)

### Call Money Market

A part of the mechanism of a stock exchange, by which brokers are provided with



call funds secured by stock exchange collateral to meet their requirements. New York is the principal call loan center of the country, and New York banks are the chief suppliers of this form of credit. Considerable sums are usually invested in call loans by New York banks for the account of interior bank correspondents. When the call loan rate is high, it is also a common practice for individual capitalists to enter the market.

In New York City, call loans are negotiated by the lending banks either directly with the borrowing brokers, or through the agency of the call loan desk at the Stock Exchange. The latter is the customary practice. The call loan renewal rate is fixed by the Stock Exchange money committee daily, and is transmitted over the ticker tape just as security quotations. Banks having money to lend are not required to offer it at the established rate, but may offer it for more or less.

The call money market offers a convenient investment medium for surplus or temporarily idle funds, or funds which a bank desires to keep in liquid condition. Since these funds can be called within 24 hours, a bank can make a commitment without endangering its cash reserve position, or without losing the opportunity of investing the funds at a higher rate on a time basis, should a favorable market eventualize. Next to cash, and balances on deposit with other banks, call loans usually represent a bank's most liquid asset.

The amount which a bank can invest in call loans depends upon its immediately available uninvested surplus funds. Banks which habitually enter the call money market, defer making their offerings until they determine the amount of their other commitments for the day. The first step in this procedure is to ascertain the ratio of cash reserve to net demand deposits in order to see that it meets the legal requirements. This in turn will depend upon whether the clearing house balance for the day is a net debit or credit. When the bank determines how much money is at its disposal for call loans, it communicates with the money desk on the floor of the Stock Exchange, giving instructions to the clerk to offer the sum on the board, either at the established rate, or some other specified rate.

Funds offered by banks at the money desk in the exchange, are allocated among the borrowing brokers in accordance with their needs, and in order of their application.

Lending banks exercise no prerogative in choosing their borrowers. The rule is that unless a bank gives instructions to the contrary, it must accept the names which the clerk at the money desk reports back. A bank cannot refuse to lend because it dislikes a particular borrower, although it can call the loan the next day, if it chooses. Were it not for this rule, confusion in making call loans would be unmanageable. Some brokers, moreover, would certainly fail to get the accommodation they need. Consequently, the offerings are apportioned among the brokers without favor, provided they are Stock Exchange members and can furnish satisfactory collateral. This policy is essential if the brokers are to continue in business.

In case not enough money is offered to satisfy the brokers' demand, a money pool is formed. Some influential banker is appointed as chairman of a bankers' committee, and his duty is to raise the deficiency by practically compelling the banks having the highest reserves to contribute to the pool. Such a condition occurs only during times of great credit stringency.

In so doing, banks protect themselves as well as the brokers, since failure of important brokerage houses tends to precipitate a panic and a collapse of security prices, which form the collateral behind the brokers' loans. For these reasons, brokers *must* be adequately provided for. Otherwise, they would soon fail because of inability to finance the commitments of their clients. It is almost unwritten law in Wall Street that "no brokerage house with really good collateral will be allowed to fail for lack of accommodation."

Some amount of brokers' loans are arranged on a time basis. Brokers who assist in negotiating these loans receive a commission of  $1/32$  of 1 per cent., whereas the brokers negotiating call loans at the exchange call money desk receive nothing. The advantage of lending time money to stock exchange brokers is that the bank can select its borrowers.

The following quotation from a Federal Reserve Board memorandum to the United States senate, throws some illumination on the amount and turnover of money in the securities markets:

"It appears that over a period of years during the prewar period the volume of all money, both time and call, employed in the securities market was estimated at about \$1,000,000,000, of which the average on call was about 60 per cent. and the average on



time about 40 per cent., or a nominal value of call money of say \$600,000,000. The daily turnover of all money, *i. e.*, all loans called for payment, loans made in replacement thereof, and new money borrowed, ranged from \$15,000,000 to \$30,000,000, and averaged about \$20,000,000. The daily turnover during the year 1919, however, ordinarily ranged from \$25,000,000 to \$40,000,000."

### Call of More

A London Stock Exchange term to denote an option which gives the holder the right to call for an additional amount of stock equal to the amount named in the contract at the same price.

It is "the premium paid for the rate of calling or putting stock at some future date at a stipulated price, is sometimes included in the price at which a transaction is done, for the same date, in firm stock; thus a 'giver' of option money will buy a certain amount of stock firm for delivery, say two months ahead, at a figure sufficiently over the current market price for that period to carry with it the option of calling a like amount at the same price. This transaction in options is known as buying stock 'Call of More.'" (Higgins: *The Put and Call*.)

### Cambism

Another term for *Cambistry* (*q. v.*).

### Cambist

A person skilled in the exchange of foreign moneys; one who is able, on the basis of current quotations, to determine the cheapest method of remitting to a foreign country; a dealer or expert in foreign exchange.

The term is also applied to a table or manual used in computing foreign exchange transactions, prepared by a cambist, in order to save time in computing each transaction separately. This manual exhibits the principal currencies of the world, their weight, fineness, and equivalent values. (See *Cambistry*.)

### Cambistry

The science of exchange of foreign currencies particularly with reference to determining the cheapest method of remitting to a foreign country. Cambistry involves a knowledge of the various countries of the world; weights, measures, and fineness of metals used as a basis of coinage in various countries; the methods of dealing in bullion;

assaying operations; issuance of bills of exchange, international checks, and postal money orders; commercial parities; and computations in the arbitration of exchange.

(See *Arbitration of Exchange, Foreign Exchange, Foreign Moneys*.)

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### Campaign

A "demonstration" in a security or group of securities, sometimes for the purpose of depressing values, but more frequently to raise values for the purpose of attracting public participation so that stocks can be distributed at the higher levels. A campaign usually implies more or less factitious activity and fluctuations in a stock in order to draw speculative attention to it, together with the dissemination of news and rumors upon it, favorable or unfavorable, according to the purpose of those conducting the campaign.

### Canadian Bankers' Association

An incorporated body with powers and duties prescribed in an amendment passed in 1900 to the Canadian Banking Act. Each chartered bank is entitled to one delegate at all meetings and has one vote. This Association supervises the issue, cancellation and destruction of worn and mutilated bank notes, and takes charge of suspended banks. It is the medium through which the banking opinion of Canada finds expression and keeps its members informed on all matters affecting banking interests. The headquarters are located in Montreal. The active executive officer is the Secretary-Treasurer.

### Canadian Banking System

This system is one of the strongest and soundest in the world, having features in common with the Bank of England and the Federal Reserve System. The Canadian banking system consists of approximately seventeen chartered banks, having nearly 4,650 branches widely distributed throughout the Dominion. They are joint stock banks, privately owned and managed, but operating under a banking law which provides uniform control and supervision. There are no provincial (corresponding to our state) banks in Canada, all being under the supervision of the Dominion Government, through the operation of the British North America Act of 1870, which is revised every ten years.

The minimum required capital of the Canadian banks, which are allowed to issue bank notes equal in amount to their capital, without providing security of any kind, is \$500,000. Holders of these bank notes are protected, however, by a first lien upon the assets of the bank, by the double liability of the stockholders, and by a 5 per cent. redemption fund. The notes of banks which have failed draw 5 per cent. interest from the time of the default until announcement of the redemption day. Canadian bank note issues are elastic, and provision is made for emergency circulation during the crop moving season. They are not guaranteed by the Government, nor are they legal tender, but no losses have occurred in the case of a few banks which have failed.

As in the case of their notes, Canadian banks are not required to keep a stated reserve against deposits. Each bank is free to determine what cash reserve it shall keep against its deposits, but there is a general understanding that in normal times the cash reserve should approximate 15 per cent. on demand deposits.

Branch banking is one of the features of the Canadian banking system. Each bank is a bank of branches rather than a bank with branches, but each has a "head office," and on the average over two hundred branches, *e. g.*, The Royal Bank of Canada has over 700 branches. No legal restrictions are placed upon the number or location of branches and this not only allows the establishment of branches in remote districts and in foreign countries, which would otherwise not be served, but also strong and virile control from the head office. Several of the larger banks have branches in the United States, West Indies, Central and South America, and in Europe. Dominion banks may have savings departments.

Supervision of Canadian banks is exercised by the Minister of Finance, who may call for statements of condition at any time. Monthly detailed statements of assets and liabilities must be sent to the Minister of Finance. The control of banks in Canada by Government agencies, however, is much less rigid than in the United States. Periodic bank examinations are not required there as here, although provision is made for an annual audit by qualified auditors appointed by stockholders of the bank, who make a report for their (stockholders') benefit. Such auditors must be appointed from a group selected by the general managers of the banks and approved by the Minister of Finance.

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#### Cancellation

An annulment or rendering void or inoperative of financial instruments, *e. g.*, bonds, coupons, stocks, and checks, upon their payment and retirement, or transfer.

For the purpose of protecting themselves against fraud and possible presentation of a bond which may have become lost and in the illegal possession of the holder, it is incumbent upon the issuers of bonds to exercise reasonable care in their redemption and that of the accompanying coupons. Quite a customary procedure is to provide a blank book for each issue of bonds, one page each being devoted to a single bond, below which spaces are numbered to correspond with each of the originally attached coupons. When coupons have matured and been paid off, they are cancelled and pasted in the blank spaces, according to serial number. Likewise when the bond itself has matured and been redeemed it is pasted in the space provided for it. In this way it is possible for the issuer to furnish evidence that the entire obligation has been extinguished, and that no bonds or coupons are outstanding.

Cancellation of bonds and coupons is also sometimes accomplished by cremation. (See Cremation of Bonds.)

#### Cancelled Checks

Checks which the drawee bank has paid and cancelled. Checks are cancelled by the drawee bank on the day they are paid and charged to the drawer's account. They are usually cancelled or "cut" by means of a perforating machine which punches the following words: "Paid Date..... Name and Clearing House number of paying bank." Cancelled checks are kept in the records of the bank until the end of the month when they usually are delivered to, or called for by the customer, together with the monthly statement.

When a check is paid, it becomes the property of the drawer, but the paying bank is entitled to retain it as a voucher until the statement of account has been submitted to and reconciled by the customer, and agreed to as correct.

Cancelled checks furnish the best evidence of the payment of money and should be preserved by the drawer as receipts, or

vouchers. (See Statement Department, Voucher, Voucher-Check.)

### Candareen

A Chinese Coin. (See Foreign Moneys—China.)

### Capital

This term has three meanings:

(1) In the economic sense, it is equivalent to capital goods, *i. e.*, the store of produced goods (physically quantity rather than money value) saved, or wealth represented by the surplus of production over consumption. In other words, it is a short expression for capital goods or capital value, especially that portion of wealth set aside for the furtherance of productive enterprise. "Capital is every product which is used or held for the purpose of acquiring wealth."\*

Economists distinguish between production goods and consumption goods. The former are instruments of production, or intermediate wealth employed in the manufacture of consumable goods or services. Thus, buildings, factories, machinery, equipment, railroads, etc., represent production goods. Consumption goods, on the other hand, comprise goods destined for immediate use, *e. g.*, food, clothing, stocks of merchandise on retailers' shelves, personal services, etc.

(2) In the accounting sense, capital is synonymous with net worth and is measured by the excess of assets over liabilities. This is true irrespective of the form of business organization. In a sole proprietorship, capital is represented by the account or accounts which indicate the accountability of the business to the owner; in a partnership by the sum of the partners' accounts; and in a corporation by the sum of the various capital stock accounts, surplus and undivided profits. (See Capital Stock.)

(3) In business, a distinction is made between working capital and fixed capital. *Working Capital* (*q. v.*) also known as liquid or current capital consists of cash and other assets which in the ordinary course of business will be converted into cash, *e. g.*, merchandise, accounts receivable, notes receivable, etc. Fixed capital, on the other hand, corresponds roughly to the economists' notion of production goods, and consists of assets which in the ordinary course of business, will not be converted into cash, but used for carrying on the business. It is

"locked up" or "sunk" into fixed assets, *e. g.*, land, buildings, machinery, equipment, etc.

### Capital Account

The account which denotes the amount of the owner's investment in a business. It represents net worth. It is known as proprietorship account in the case of a sole proprietorship, as partners' accounts in the case of a partnership, and as capital stock in the case of a corporation. (See Capital, Capital and Revenue Expenditures, Capital Stock.)

### Capital and Revenue Expenditures

Capital expenditures are those which, whether paid out of the proceeds of sale of capital issues, or from earnings, increase the property value and earning power of the concern which incurs them. They represent improvements, additions, or betterments, and therefore may be considered as chargeable to asset or property accounts.

Revenue expenditures, on the other hand, are those incurred in making replacements, as distinguished from additions or betterments; and are always to be paid out of earnings. If a concern erects a new factory building, the cost may be considered as a capital expenditure, but if the new building merely replaces one that has been torn down, it must be considered as a revenue expenditure, except to the extent which the new building may be valued over and above the old.

### Capital and Surplus

A term frequently used in the condensed statement of condition of a bank to indicate the bank's financial strength. The two accounts, capital and surplus, are combined because the surplus account of a bank is a capital surplus, and like capital stock, is not available for the payment of dividends. The surplus account should be distinguished from *Undivided Profits*, which corresponds to the surplus account of industrial and mercantile corporations, and which is available for dividends.

The amount of combined capital and surplus is important because the limitation upon loans to one customer is based thereon, in the case of National banks and some of the State banks. Under the banking laws of some states, *e. g.*, New York, the combined capital and surplus for this purpose includes undivided profits. (See Capital Stock, Undivided Profits.)

\*R. T. Ely: *Outline of Economics*, p. 121.



### Capital Assets

Another term for fixed, slow, or permanent assets. (See Fixed Assets.)

### Capital Investments

Investments of funds in capital or fixed assets, or in long-term securities, as distinguished from funds invested in liquid, or short-term assets.

### Capitalization

The aggregate of the authorized par value of the stocks and bonds of a corporation, although in some jurisdictions capitalization is legally defined as the total value of the authorized capital stock. The amount of the capitalization may or may not be represented by an equivalent property value, although the latter often exceeds the capitalization. Surplus forms a part of the capital but is not represented in the capitalization.

There are several bases of capitalization, *viz.*: (1) cost of property; (2) cost of duplication; (3) cost of replacement on the basis of the present state of the technical arts; and (4) capitalization of earning power.

The capitalization of a public utility corporation is usually regulated by the public service commission of the state in which it is located.

### Capitalization of Earning Power

One of the bases for determining the proper capitalization or value of a business property. This method implies that a business property may be regarded as an income-producing unit in the same manner as for example, a bond or stock. Accordingly, the value of a business is equal to the present worth of an indeterminable series of probable incomes discounted at a rate of interest, currently earned for properties of the same class. Thus, a property which yields an average annual net income of \$1,000 is worth \$10,000 if discounted at 10 per cent. (\$1,000 divided by .10); \$12,500 if discounted at 8 per cent.; \$16,666  $\frac{2}{3}$  if discounted at 6 per cent.; or \$20,000 if discounted at 5 per cent.

### Capital Liabilities

The long-term debts of a corporation representing the combined capital stock and bonded debt. Capital liabilities are practically equivalent to capitalization, but differ from fixed liabilities in that the latter include long-term debts due to creditors and not to stockholders.

### Capital Stock

The stock of a corporation issued to its stockholders for money or property, or out of accumulated earnings. The entire capital stock of a corporation is divided into a number of equal parts or shares, usually with a specified par value, the exact amount authorized being fixed by the certificate of incorporation. A corporation is not obliged to issue all the stock authorized. Any amount of the authorized capital stock not issued is known as unissued stock. Issued and outstanding shares of stock are certificates of ownership held by the purchasing stockholders, representing their interest in the corporation, and capital stock is the aggregate of these shares.

The capital stock of a corporation represents its nominal value, as distinguished from its actual or property value. It represents the amount of the corporation's accountability to its stockholders, but uncollectible by them through legal procedure, as distinguished from the corporation's liability to outside creditors. It is *share* capital as distinguished from *loan* capital. (See Authorized Capital Stock, Common Stock, Preferred Stock, Full Paid Stock, Deferred Stock, Stock Certificate, Stockholder.)

### Capital Turnover

A credit term used especially among bank credit men to indicate the rapidity with which the capital (net worth) of a business is turned over, *e. g.*, if the sales are \$1,500,000 and the invested capital \$1,000,000, the capital turnover is  $1\frac{1}{2}$ . It is a "vitality" index and each business has a capital turnover normal to itself. In general, the higher the turnover the healthier the condition which is disclosed. If comparative balance sheets show a falling ratio, an accumulation of idle capital is indicated. A rising ratio is favorable up to a certain point beyond which it indicates excessive borrowing, thereby making the *Ratio of Debt to Net Worth* (q. v.) unfavorable. (See Statement Analysis.)

### Carat

This term has two meanings:

(1) As a unit of weight (quantitative measurement) it is equal to  $3\frac{1}{6}$  grains troy, and is used to weigh precious stones, particularly diamonds.

(2) As a unit of quality (qualitative measurement) it is used among goldsmiths, jewelers and assayers, to denote the fineness or purity of gold or other metal, being the

24th part of any weight, *e. g.*, pure or fine gold is 24 carat. A ring which by weight is half gold and half copper is 12 carats fine. The term "18 carat gold" means that the gold is 18/24 fine, *i. e.*, 18 parts pure gold and 6 parts alloy.

### Care of Securities

There are two principal means to provide for the safekeeping of securities: (1) rental of a safe deposit vault or box; and (2) placing them under the custodianship of a bank or trust company. In the former arrangement, the securities remain under the depositor's exclusive supervision and control, while in the latter, they are in a bank or trust company's custody but always immediately available and subject to the orders of the owner. There has been no known instance of loss of securities deposited in a safe deposit vault where the depositor has a covering contract. Modern construction of safe deposit vaults offers too many obstacles for the operations of even the most scientific burglars. For all practical purposes these vaults are fire, water, burglar and mob proof. No such guarantees are provided by an ordinary office safe, some of which even fail to provide for protection against fire.

In any event, wherever securities may be kept, the holder should make a detailed descriptive record to include number, denomination, name of issue, date of issue, due date, name of issuing organization and name of person to whom issued, if any. In case of loss, theft, or destruction by fire, or other cause, means are then available, whereby the securities may be identified, recovered, or replaced. In case securities are deposited in a safe deposit box, or held in custody by a bank or trust company, this list will be useful on many occasions and perhaps save trips to the bank. This will be true when the depositor wishes to know dividend or interest dates, or numbers in case bonds are called for previous redemption.

Registered bonds offer means of protection against loss since interest and principal are payable only to the person in whose name the bonds are registered on the books of the issuing organization. Notice of loss, however, should promptly be made in order to prevent assignment and transfer. There is no way of protecting the owner of coupon bonds in case of loss, although quick action and co-operation with the Treasury Department or Federal Reserve bank sometimes leads to the recovery of lost Government bonds. In case these bonds are lost

the owner should immediately notify the Secretary of the Treasury at Washington and Federal Reserve bank of his district, giving a full description. The same notification should be sent in case of loss of registered bonds. Upon satisfactory proof of loss and the filing of an indemnity bond, a duplicate will be issued. Duplicates for coupon or registered bonds destroyed, wholly or in part, or so defaced as to impair their value to the owner will be issued upon fulfillment of the requirements of the Secretary of the Treasury, including the filing of an indemnity bond.

In case stocks are lost or stolen, notify the issuing corporation, and place a *Stop Transfer Order* (q. v.) with its transfer agent.

In case of loss of a municipal bond notify the treasurer of the municipality and the distributing investment banking house. If a corporation bond is lost notify the treasurer of the corporation. If a real estate mortgage is lost notify the attorneys who executed it. (See Custodianships, Safe Deposit Company, Vault.)

### Carey Act Bonds

Bonds issued by authority of the National Carey Act passed by Congress in 1894 (amended 1896) in order to encourage the reclamation of arid lands in the western states. Under the provisions of the Act each of the eleven states affected have the right to select one million acres of land within its borders and to control the irrigation, and aid in settlement, cultivation and sale of such land, to bona fide settlers in tracts not exceeding 160 acres to any one person. Following its enactment, the states quickly passed bills enabling them to take advantage of the federal statute. Most of these bills authorized state officials to receive and pass upon requests of any person, company of persons, association, or incorporated company applying to construct irrigation systems, but with the requirement that the engineering plans should be approved by the state engineer and be subject to state inspection.

Bonds are thus issued by private enterprises but are secured by mortgages given by the settlers on the land, together with their water rights, and in addition such security as may exist in the irrigation system itself. Title to the land does not pass to the settler until settlement is an accomplished fact and until he has paid the construction company for his water rights. The total issue of bonds in any project cannot exceed "the actual cost and necessary expenses of



reclamation and reasonable interest thereon from the date of reclamation until disposed of to actual settlers; and when an ample supply of water is actually furnished in a substantial ditch or canal, or by artesian wells or reservoirs, to reclaim a particular tract or tracts of such lands, then patents shall issue to the state without regard to settlement or cultivation."

Carey Act bonds are always first liens upon land and water rights, and in many cases are secured by property having a value several times that of the issue of bonds against them. They are in no sense guaranteed by Federal or a state government, but are entitled to a somewhat better rating than other classes of irrigation bonds. They partake of the characteristics of a mortgage, semi-municipal, and industrial bond combined. At least one Carey Act project has been beset with difficulties. (See Irrigation Bonds.)

### Carriers

A general term used to denote companies engaged in transportation, *e. g.*, railroad, express, steamship, street railway, subway, etc. It is particularly used in stock market terminology to designate steam railroads. (See Common Carrier.)

### Carry

This term has three meanings:

(1) To hold securities; to be "long" of stock.

(2) To supply funds to a customer, especially when it becomes necessary for a bank to renew the notes of its borrowers in order to tide them over a difficult period.

(3) When a broker furnishes funds to customers who trade by margin accounts represented in the difference between the purchase price of the securities (or commodities) and the customer's partial payment thereon, the broker is said to carry the securities which he holds as collateral for the customers' loans.

### Carrying Charges

This term has two meanings:

First read *Carry*.

(1) The interest charged by brokers for money lent to customers in carrying securities on margin; the cost of borrowing money from a broker to carry securities purchased on margin account. The interest rate charged by a broker for carrying margin accounts usually ranges from 1 to 2 per cent. above the average call loan rate for the month.

(2) The cost of carrying commodities held in a warehouse for speculation or otherwise, such as, charges for storage, insurance, haulage and loss of interest on the investment.

### Carrying-Over Day

A London Stock Exchange term meaning contango day, or postponed day of delivery. (See Backwardation.)

### Carry-Over

This term has two meanings:

(1) A London Stock Exchange term to signify delay in settlement of a stock exchange contract from one settlement day to the next.

(2) A term used to apply to the stock of some staple commodity, *e. g.*, wheat held in elevators, warehouses, or on farms over another year, *i. e.*, beyond another harvest.

### Cartel

An anglicised term for the German term *kartel*, which is similar, if not identical to the American industrial combination or *trust*. Before the war the cartel movement grew in Germany with great rapidity. Contrary to the situation in this country, the cartel is encouraged in Germany by favorable legislation. The purpose of encouraging the German cartel movement is to build up the German export trade. By means of developing large scale, cheap, and efficient production in finished manufactures, the cartels were often able to undersell foreign competitors.

### Car Trust

See Equipment Trust.

### Car Trust Bonds

See Equipment Trust.

### Car Trust Certificate

See Equipment Trust.

### Cartwheel

A colloquialism for the United States silver dollar.

### Cash

This term has three meanings:

(1) As a noun, money; circulating medium; coins and paper money that pass freely as currency, *i. e.*, from bearer to bearer without indorsement. Checks, ma-



ured coupons and due bills are frequently counted as cash because they are easily converted into money. Nothing should be regarded as cash, however, which does not constitute immediate purchasing power. (See Money.)

(2) As a verb, to convert a negotiable instrument, such as a check, money order, or matured coupon, into money; or vice versa, to give the holder money for such an instrument. (See Cash Items, For Cash.)

(3) A Chinese coin. (See Foreign Moneys—China.)

### Cash Account

An account in the ledger which summarizes the cash transactions of a business, the left side representing receipts and the right disbursements. The balance represents cash on hand. A cash account with a bank is really an account receivable, but is usually shown in a balance sheet as cash.

### Cash Assets

Assets appearing in a financial statement represented by actual cash on hand (in a safe or petty cash drawer), and the sum of the bank deposits.

### Cash Book

A cash journal; an account book in which cash transactions are chronologically recorded.

### Cash Buying

A term to indicate the purchase of securities or commodities outright, *i. e.*, buying outright, or paying cash in full for immediate delivery.

### Cash Credit

A credit established by a depositor who is permitted to borrow by creating an overdraft. This is a common practice in England and Scotland. "Permission to run an overdraft secured by good bondsmen, limited in amount and to be reduced to small proportions, if not entirely repaid, at certain times." \*

### Cash Discount

A reduction in price offered by a business selling goods on credit to encourage prompt payment. Cash discounts vary in the different trades, and according to the terms of credit offered. Almost without exception,

however, cash discounts are offered where payment is made in advance of the time allowed by the terms of credit. In the wholesale grocery trade, the terms of credit are normally 30 days and bills are supposed to be paid within that period, but a 2 per cent. discount is allowed if paid in 10 days. In some trades a greater cash discount is available upon the payment of spot cash. Cash discounts for anticipation of payment in advance of the credit terms frequently range from 12 to 18 per cent. a year. In some lines of business the margin of net profit is so slight that profits depend upon taking advantage of all cash discounts offered.

The keen business man takes advantage of cash discounts and it is one of the functions of commercial banks to furnish working capital for this purpose. The business, the statement of which does not show the practice of regularly discounting bills, sometimes has difficulty in obtaining loans because it shows itself not to be cognizant of all the commercial advantages open to it, and therefore not a good business risk.

### Cash Dividend

See Dividend.

### Cash Grain

Grain purchased for cash in full for immediate delivery; same as spot grain. (See Spot.)

### Cashier

A term commonly applied to a person who receives and disburses money for a business. In banking, an officer who is responsible for the custody of the bank's assets and whose signature is required on all official documents. While other higher officers of a bank may delegate their authority, or act as "dummies," a cashier never does so, even in the largest banks. His duties vary according to the size of the bank. Usually he is the chief administrative officer and has direct charge of the bank's operations, and corresponds to the general manager in a mercantile or industrial establishment. Among large banks the duties of the cashier are so numerous that Assistant Cashiers are appointed to administer separate assigned functions and have authority to sign instruments in the same manner as the cashier.

### Cashier's Account

See Cashier's Check.

\* C. E. Phillips: Bank Credit, p. 235.

### Cashier's Check

A bank's own check; a check drawn upon a bank and signed by its cashier, or assistant cashier, being a direct obligation of the bank. Cashier's checks are issued to borrowers when loans are made in lieu of a deposit credit or actual cash, sold to customers for remittance purposes, and issued in payment of the bank's own obligations, money transfers, etc. When a cashier's check is issued it becomes a credit, and upon its return through the clearing house or otherwise, a debit to the cashier's account. Cancelled cashier's checks are preserved as vouchers in the bank's files.

### Cash Items

Checks, drafts, notes, or acceptances deposited with a bank for immediate credit, but which are subject to cancellation of credit in case they are not subsequently paid. Items deposited, other than money, over the receiving teller's window are cash items. (See Collection Items.)

### Cash Letters

See Letters.

### Cash on Delivery

A purchase made with the understanding that the goods will be paid for when delivered.

### Cash Reserve

All banks are required by law to keep cash reserves against deposits. Member banks of the Federal Reserve System are required by the Federal Reserve Act to maintain a reserve with the Federal Reserve bank of their district. This legal reserve varies from 13 per cent. to 7 per cent. of demand deposits, according to whether the bank is located respectively in a central reserve city, reserve city, or undesignated city. The Federal Reserve Act does not require that member banks shall maintain reserves of cash in their own vaults. Any cash kept in a member bank's vault does not count as its legal reserve, and consequently these banks keep on hand only sufficient cash to meet current counter, or "over the window" requirements. Since the reserve with the Federal Reserve bank earns no interest, the amount of cash in a member bank's vault is likely to be kept at the lowest figure consistent with safe and conservative banking policy. Among the larger member banks vault cash usually approximates two per centum of the net demand deposits. It

is not usually necessary to keep more than this amount, since additional sums can be easily obtained through rediscounting, or borrowing from the Federal Reserve bank.

Cash reserve requirements of state banks and trust companies, not members of the Federal Reserve System, vary according to the laws of the state of incorporation. The range is from 10 per cent. to 25 per cent. with a strong predominance for 15 per cent. Most states permit state banks and trust companies to keep more than half of their reserve with legal depositories (other designated larger banks in or out of the state) at interest. State banks and trust companies located in New York City are required to keep 15 per cent. and 18 per cent. reserves, respectively. Of these amounts, 10 per cent. and 12 per cent. respectively, must be kept in the bank's own vault, while the remainder may be kept in other banks. (See Reserve.)

### Cash Transaction

A transaction in securities, grain, real estate, etc., in which cash in full is paid for immediate delivery, possession, and title. (See For Cash.)

### Cats and Dogs

An expression used to denote highly speculative securities. It is particularly applied to non-income-bearing stocks of uncertain or no value; stocks acknowledged to be a gamble because the underlying properties are not yet developed, and which are worthless as bank collateral.

### Cattle Grades

See Grades.

### Cattle Loan Company

A company organized for the purpose of lending its credit to cattlemen for the purchase, raising, and marketing of cattle or other live stock. They are sometimes separate companies, but in most instances are affiliated with, or owned or controlled by state or national banks, located at or near the large stock yards, or in producing centers. In many instances these institutions are connected with banks specializing in the live stock business, and use the same building and officers.

The function of a cattle loan company is to relieve the commercial banks from the burden of carrying cattle paper, which under normal circumstances, amounts to millions of dollars. Very often these companies act as middlemen between cattlemen-borrowers

and the ultimate investors, *i. e.*, the banks in the large centers. Some classes of cattle paper are also eligible for rediscount and for market purchases by the Federal Reserve banks. (See Cattle Loans.)

### Cattle Loans

Loans made for the purpose of financing the cattle industry, which includes the purchase, or breeding, feeding, grazing, fattening, and marketing of cattle. They may be divided in three classes, feeder, stocker, and dairy loans. Feeder loans are made on beef steers ready for the last stage of feeding prior to their sale as finished beef. These loans range from 3 to 6 months' maturity. Stocker loans are made on cows for breeding purposes, and on young calves. They usually have a 6 months' maturity, subject to 3 or 4 renewals, and require about 50 per cent. margin. Dairy loans are made for the purchase of high grade cows and pure bred sires, for the purpose of improving the dairy business. Their usual maturity is 6 months, subject to 4 or 5 renewals.

The procedure in making cattle loans is as follows: (1) application of the borrower; (2) sworn statement of the financial condition of the borrower; (3) inspection of the borrower's cattle with reference to location, brands, number, approximate weight per head, etc.; (4) search of records to ascertain whether any liens against borrower's real or personal property exists; (5) execution of chattel mortgage in which the market value is usually at least 20 per cent. above the amount of the loan, and (6) execution of the note. (See Cattle Loan Company.)

### Cent

The coin of lowest denomination in the United States, being equivalent in value to one-hundredth of a dollar. Its composition is 45.6 grains of copper and 2.4 grains of alloy, consisting of tin and zinc. It is one of the minor coins and is legal tender up to 25c. in any one payment. (See Token Money.)

### Centavo

A name given to a coin in many countries including Argentina, Chile, Columbia, Guatemala, Honduras, Ecuador, Bolivia, Mexico, Peru, Nicaragua, Philippine Islands, Portugal, Paraguay and Salvador. In practically all of these countries the centavo is the hundredth part of the standard coin, *e. g.*, the hundredth part of a peso in Mexico

and in the Philippine Islands. (See Foreign Moneys.)

### Centesimo

The coin of lowest denomination in Italy, Panama and Uruguay, being equal to the hundredth part of the standard coin in each of these countries, *e. g.*, one hundredth part of a lira in Italy. (See Foreign Moneys.)

### Centime

The coin of lowest denomination in France, Belgium, Switzerland, Monaco, Haiti and Indo-China, being equal to the hundredth part of the standard coin of each of these countries, *e. g.*, one hundredth part of the franc in France, Belgium, Switzerland and Monaco. (See Foreign Moneys.)

### Centimo

The coin of lowest denomination in Spain, Venezuela and Costa Rica, being equal to the hundredth part of the standard coin of each of these countries, *e. g.*, one hundredth part of the peseta in Spain. (See Foreign Moneys.)

### Central Bank

A bankers' bank; a bank which holds the main body of bank reserves of a country, and which is the ultimate reservoir of credit. The term is usually used in reference to the great European central banks, *e. g.*, *Bank of England* (q. v.), *Bank of France* (q. v.), *Bank of Germany* (q. v.), etc. These banks are usually characterized by the following features: (1) keep the banking reserves of all or a majority of the commercial banks; (2) rediscount and loan against high-grade commercial paper for member banks; (3) perform numerous fiscal services for the Government; (4) given a monopoly of bank-note issue; (5) control the gold reserve of the country; (6) assist in check collection; and (7) are subject to some measure of Governmental regulation.

While the central bank idea is best typified by the above examples, the Federal Reserve System in the United States exemplifies a slight variation of the principle, since in the latter, twelve regional banks are substituted for a single central bank. (See Federal Reserve System, Regional Bank.)

### Central File

A file around which the work of the New Business and Advertising Departments revolves, and in which complete detailed information concerning each of the bank's



customers and prospects is recorded. The file cabinet is usually provided with 7x10-inch cards ruled and printed on both sides. One card is allotted to each customer or prospect.

The purpose of the central file is to reveal what services and departments each customer is utilizing and fails to utilize, what the average monthly deposits and loans are, what the commercial agency and credit department ratings are, and what advertising literature has been sent. Briefly, its intent is to disclose the possible sources of new business. If the cards are kept up to date, they become an almost indispensable adjunct to an aggressive new business policy.

(See New Business Department, Publicity Department.)

### Central File Card

See Central File.

### Central Reserve Banks

National banks located in the *Central Reserve Cities* (q. v.).

### Central Reserve Cities

According to the National Bank Act and reaffirmed by the Federal Reserve Act, New York and Chicago are central reserve cities. St. Louis was formerly a central reserve city, but was reclassified as a reserve city by the Federal Reserve Board, effective July 1, 1922. The Federal Reserve Board has power "to add to the number of cities classified as Reserve and Central Reserve Cities or to reclassify existing Reserve and Central Reserve Cities, or to terminate their designation as such." National banks located in central reserve cities are required to carry higher reserves against net demand deposits than banks in reserve and undesignated cities. (See Reserve Cities.)

### Certificate

See Certificate of Analysis, Certificate of Deposit, Certificate of Incorporation, Certificate of Indebtedness, Certificate of Inspection, Certificate of Origin, Clearing House Loan Certificate, Gold Certificate, Hypothecation Certificate, Receiver's Certificate, Silver Certificate, Stock Certificate.

### Certificate of Analysis

One of the documents which an importer may require a foreign seller to accompany

the bill of exchange drawn against a shipment as prescribed by the terms of the relative letter of credit. It is intended to protect the importer by a certificate that the merchandise ordered from a foreign seller conforms in all respects to specifications. This is especially important in the purchase of chemicals, drugs, precious metals, jewels or other merchandise, where the value, quantity, quality, fineness, or chemical constituency must meet exacting requirements.

A certificate of analysis is usually certified by an expert, such as a chemist or assayer, although it may be certified by the shipper. It usually contains a statement as to the quantity, quality, fineness, or other exact details of the shipment, and is sometimes sworn to before a notary public.

### Certificate of Deposit

A receipt for the deposit of funds in a bank of which there are two classes, demand and time. Demand certificates of deposit are payable on demand, and time certificates of deposit are payable on a specified date, or so many days after date, upon proper indorsement. These certificates are similar to savings deposits, but have a definite maturity, and are evidenced by a certificate instead of a passbook entry. They bear interest, and are, therefore, a convenient means of investing temporarily idle funds, which otherwise would be unemployed. Certificates of deposit are negotiable, and when properly indorsed, may serve as security for a loan. Banks are required to keep reserves against demand and time certificates of deposit corresponding to reserve for demand and time deposits, respectively.

The Federal Reserve Board defines a time certificate of deposit (Regulation D, Series of 1920) as "an instrument evidencing the deposit with a bank, either with or without interest, of a certain sum specified on the face of the certificate payable in whole or in part to the depositor or his order—(a) on a certain date, specified on the certificate, not less than 30 days after the date of the deposit, or (b) after the lapse of a certain specified time subsequent to the date of the certificate, in no case less than 30 days, or (c) upon written notice, which the bank may at its option require to be given a certain specified number of days, not less than 30 days, before the date of repayment, and (d) in all cases only upon presentation of the certificate at each withdrawal for proper indorsement or surrender."

The following is a typical form of Certificate of Deposit:

No..... Bank  
 ..... New York.....192  
 .....has deposited in this Bank  
 .....Dollars  
 payable to the order of.....  
 on the return of this certificate properly  
 indorsed.  
 \$.....  
 ..... Teller. Cashier.

### Certificate of Incorporation

The charter or franchise which the original incorporators of a company receive from the Secretary of State of the state of incorporation, legally empowering it to act as a corporation. (See Capital Stock.)

A certificate of incorporation for each type of bank or trust company must be applied for from the proper authority. Application for a National bank charter is made to the Comptroller of the Currency. Organizing state banks and trust companies apply to the proper state authority known under different titles, *e. g.*, Superintendent of Banks (New York), Commissioner of Banking (Massachusetts), Auditor (Illinois). A typical certificate of incorporation for all types of banking institutions contains the following information; (1) name of bank, (2) location, (3) capital and number of shares, (4) name, address, financial worth, and number of shares of each stockholder, and (5) that the certificate is made in order to take advantage of either the National or state banking laws. The certificate is executed in duplicate; one copy for the Comptroller of the Currency (or state banking department), and the other for the bank. (See Articles of Association, Bank Organization.)

### Certificate of Indebtedness

A short term note, corporate or civil, representing floating indebtedness. A corporate certificate of indebtedness is merely an unsecured promissory note, the holder having a general creditor's recourse against the general assets. The United States Treasury Certificates of Indebtedness are short-term civil notes or debentures, issued for the purpose of keeping the Treasury supplied with funds in anticipation of tax collections. The short title for these notes is Treasury Certificates.

### Certificate of Inspection

This certificate, or combined certificate of weight and inspection, is a document which an importer may require the foreign seller to accompany the bill of exchange drawn

against the shipment in accordance with the terms of the relative letter of credit. It is prepared by a trade association or concern authorized to make inspection and tests, and gives a description of the goods shipped by packages, boxes, barrels, weights, contents, markings, etc., but without prices. This instrument is frequently required in the shipment of heavy and bulky materials and differs from a certificate of analysis in that the latter usually applies to goods of high value and small bulk.

### Certificate of Origin

A certificate sometimes required by an importer to insure that merchandise has originated in a country in which it was intended to be purchased, and is not being relayed through another country. An importer sometimes desires to protect himself against purchasing goods of a belligerent country, which may masquerade as coming from another. A certificate of origin contains practically the same information as a seller's invoice, gross and net weight stated, but prices omitted.

In peace times the chief purpose of this certificate is to protect the most favored nation clause in the customs tariff.

### Certificate of Protest

See Notarial Protest Certificate.

### Certificate of Stock

See Stock Certificate.

### Certificate of Weight

See Certificate of Inspection.

### Certification Department

The department of a bank which certifies checks. Among small banks checks are certified at the paying teller's window, but larger banks maintain a separate window or windows, usually adjacent to the paying teller's window, whenever the volume of certification business is sufficiently large to warrant a separation of functions. The certification of checks is a part of the paying teller's functions, because certifying a check is equivalent to paying it. (See Certified Check.)

### Certifications

See Certified Check.

### Certified Check

A check which certifies that the signature of the drawer is genuine and that the depos-



itor has sufficient funds on deposit for its payment. The amount certified is then set aside for the express purpose of paying the check and payment cannot be refused because of insufficient funds. When a bank certifies a check, it is absolutely bound to pay it. It becomes *an obligation of the bank instead of being an order on the bank.*

When a check is presented at the window for certification, the drawer's account in the ledger is first inspected to see that sufficient funds are on deposit to cover the amount which is immediately deducted from the drawer's credit balance before the check is certified. Certification consists of stamping or writing across the face of the check the word, "Certified" or "Accepted," together with the date, the bank's name, and signature of the officer authorized to make certification. The negotiable instruments law states that *"where a check is certified by the bank on which it is drawn the certification is equivalent to an acceptance."* (Art. 17, Sec. 323.)

Since a certified check becomes an obligation of the bank, when a check is certified the drawer's account is reduced (charged) and "Certified Checks" account (in the general ledger) is increased (credited). When certified checks are returned through the clearing house or other channels, the account, "Certified Checks" is reduced (charged). Thus the balance of this account represents the total certified checks outstanding.

Although a bank is not obliged by law to certify checks for its customers, among the banks in the larger cities, especially in New York, certification business forms a very important service, especially for customers who deal in securities. Certified checks are also extensively used in those types of business where it is important to receive the equivalent of cash, without at the same time using cash, such as in brokerage and security transactions, payments of loans, and real estate transfers.

A check may be certified at the instance of either the holder or drawer. Certification at the instance of the holder releases the drawer and all indorsers from further liability. They are out of the transaction entirely and the holder has recourse only against the bank. Should the bank fail, the holder of such a certified check has no cause of action against the drawer. Where a bank certifies a check at the instance of the drawer, however, the latter is not released from liability. Should the bank upon which it is drawn fail before the check is presented for payment, the holder still has recourse against the drawer.

### Certified Public Accountant

An accountant to whom a state has given a certificate to the effect that he has met its requirements as to age, education, experience, and technical qualifications, as shown by the fact that he has passed the prescribed examination. The holder of such a certificate is permitted to use the designation, "*Certified Public Accountant*," or the letters "*C. P. A.*," as an abbreviation, within the state of issue. The public practice of accounting is not limited by law to certified public accountants.

There is a diversity among the various states in examination requirements. The most stringent qualifications are required by New York, the first state to issue certified public accountant certificates, Pennsylvania, Illinois, and Massachusetts.

### Cestui Que Trust

The beneficiary of a trust, or the person in whose favor a trust operates. The cestui que trust holds the equitable title to an estate, while the trustee holds the legal title. (See Trusts.)

### Chamber of Commerce

A "merchants' forum"; a title sometimes adopted by an organization formed to promote industrial and commercial interests of a city or state. The Chamber of Commerce of the State of New York, the oldest and most important organization of its kind in the world, was formed in 1768. "Its special function is to promote and protect the interests of the commerce of the city and State; and its membership, while including bankers and brokers, is composed largely of merchants and manufacturers and officers of industrial and railroad corporations. But so closely is commerce bound up with the money and security markets by ties of mutual interests, the big merchants being directors in banks and corporations and the bankers having, in many cases, an influential voice in the direction of the leading industrial and mercantile companies, that it is not easy to draw the line separating commerce from finance."\*

### Chancellor of the Exchequer

See Exchequer.

### 'Change

A abbreviation for stock exchange.

\*S. S. Pratt: *Work of Wall Street*, p. 40.



**Charge Off**

See Write Off.

**Charges**

A term to denote the sum of expenses involved in the execution of an order, or in the shipment of goods, and includes such items as commission, interest, insurance, cable charges, freight, haulage, warehousing, etc.

**Charge Ticket**

A bank bookkeeping form or posting medium on which the complete details of a transaction leading to a debit entry in a ledger account are described.

**Chartered Accountant**

An English title corresponding roughly to *Certified Public Accountant* in the United States. A chartered accountant holds a certificate from the Institute of Chartered Accountants which states that he has passed the examination given by that body and is qualified to practice public accounting. (See Auditing, Certified Public Accountant.)

**Charter-Party**

A written agreement by which the owners of a vessel or their agents place it at the disposal of a merchant (shipper), the charterer, for the carriage of a full cargo of merchandise. A charter-party may hire the services of the vessel and its crew for a single voyage or a number of voyages, or for a definite time.

**Chattel**

A legal term to signify any movable article of personal property as distinguished from fixed or real property. Chattels include movable goods of all kinds capable of transfer by delivery, *e. g.*, portable machinery, furniture, live stock, merchandise, stocks, bonds, notes, and other negotiable instruments. Sometimes the distinction between real property and chattels is difficult to make. Uncut forests are real property, while cord wood and growing and harvested crops are chattels.

**Chattel Mortgage**

A mortgage with chattels instead of real property given as security. Movable goods such as railroad equipment, portable machinery, furniture, live stock, grain, etc., are the usual chattels pledged in a chattel mortgage. Since it denotes that other credit re-

sources have been exhausted, chattel mortgages are very often the sign of weakness in a credit risk.

**Cheap Money**

An expression used to denote money procured at low interest rates; same as *Easy Money* (q. v.).

**Check**

As defined by the Negotiable Instruments Law (Art. 17, Sec. 321), and by the British Bills of Exchange Act, a check is: "A bill of exchange drawn on a bank, payable on demand." Commentators usually treat checks under the general classification of bills of exchange, but checks differ from bills of exchange also in that they purport to be drawn against a deposit, and are always payable on demand.

As defined by the Federal Reserve Board (note to Regulation J, Series of 1920), a check is "a draft or order upon a bank or banking house, purporting to be drawn upon a deposit of funds, for the payment at all events of a certain sum of money to a certain person therein named, or to him or his order, or to bearer, and payable instantly on demand."

Other definitions of a check are: (1) a written order drawn by a depositor upon his bank to pay a sum of money to a designated party; (2) an order on a bank (drawee) by a depositor (drawer, maker or payer) to pay a certain sum of money to a third party (payee); (3) an order upon a bank or banker for the payment of money to a stated party out of funds credited to the account of the drawer. While a check from a legal point of view is an order calling for the payment of money, in actual practice it is rather an order for transferring bank credit used as a substitute for money from one account to another.

The essential elements of a check are: (1) the phrase "Pay to the order of," which imparts negotiability to the check and makes it an unconditional promise to pay upon demand. The single word "Pay" may also be used except that such a check is not negotiable, *i. e.*, payable only to the person named as the payee; (2) name of payee—person in whose favor the check is drawn. Checks are sometimes made out payable to *Self, Currency, Bearer* or *Cash*, which is allowable; (3) amount payable in figures; (4) amount payable in written words; (5) name and location of the drawee bank; (6) signature of drawer or maker. In the case of some corporations the signature and

counter signatures of designated officers are necessary. The signature is the final touch without which the check is valueless; (7) indorsement. The check should be indorsed as drawn, either in blank or by a special or other indorsement, but restrictive or qualified indorsements should be avoided.

The non-essential but convenient elements of a check are: (1) location (name of city in which maker or drawer is located); (2) date of drawing the check; (3) number of the check; (4) transit number, indicating the name and location of the drawee bank according to the universal numerical transit system.

In cashing checks, the paying-teller observes the following points to insure against irregularities, informalities, or discrepancies which, if unnoticed, might involve the drawee bank in a loss: identification of presenting party; date; filling; alterations; signature (authority to sign and forgery); stop payment; financial responsibility; whether a home debit or drawn on another bank; indorsement.

Checks should not be dated ahead (post dated), otherwise they are in effect, time bills of exchange. Checks should be presented for payment "*within a reasonable time after issue or the drawer will be discharged from liability thereon to the extent of the loss caused by the delay.*" (Negotiable Instruments Law, Art. 17, Sec. 322.) Banks usually refuse to honor checks more than six months old. These are known as stale checks (q. v.), since when checks are not presented within a reasonable time after they are drawn there arises a presumption of irregularity. The date is not an essential element of a check, and an undated check is valid.

The amount written in words should agree with the amount written in figures and when there is a discrepancy between the two the amount denoted by the words is the sum payable.

A bank is usually responsible to its customer for paying raised or altered checks. A number of mechanical devices have been invented to prevent the fraudulent alteration of checks. (See Check Protecting Devices.)

A bank is not required to make a partial payment on a check whenever the drawer has insufficient funds to his credit to make payment in full. Checks made payable to *Cash, Currency, or Self*, require no indorsement when presented by the drawer. In case the drawer himself does not present the check so drawn, the indorsement of the

presenter, the drawer's representative, should be requested by the paying teller.

Checks may be classified according to method of collection into five groups: (1) checks drawn on the bank in which they are deposited for credit or cashed over the paying teller's window, known as, "own checks," "self checks," or "home debits"; (2) checks drawn on banks in the same city and which will be paid through the clearing house, known as "clearing house checks"; (3) checks drawn on banks, corporations, and individuals in the same city which are not members of the clearing house and which must be presented for payment either through the city collection department of the clearing house, or directly by messengers; (4) checks drawn on banks located at various out-of-town points which must be collected through the Federal Reserve Clearing System, or through correspondents or other collecting agents, known as *out-of-town checks*, *transit checks*, or *foreign checks*, and (5) checks drawn on, or issued by a bank located in a foreign country. (See Alteration, Cashier's Check, Certified Check, Check Book, Checking Account, Credit Instruments, Crossed Check, Date, Filling, Forged Instruments, Forgery, Indorsements, Negotiable Instruments Law, Signature, Traveler's Check, Voucher-Check.)

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#### Check Book

A book containing blank checks furnished by banks to depositors who have checking accounts with which funds on deposit may be withdrawn. Check books are usually available in several different styles, from which the depositor may select the most convenient for his purposes. These styles vary from those suitable for carrying in the pocket to desk check books with three or more checks to a single sheet. Some check books are issued with stubs to enable the depositor to keep account of his transactions, *i. e.*, deposits and withdrawals, to determine the balance, and to reconcile the balance as shown by his check book with the monthly statement as submitted by the bank. The stubs of the check book, if they contain a record of all deposits and payments by check constitute, in effect, a duplicate cash book.

In providing blank checks, as a matter of service to its large accounts which draw a

large volume of checks, banks usually print the customer's name and business thereon. Such check books and loose blank checks should be safe-guarded by depositors to prevent dishonest persons from securing blank checks and forging signatures to them.

### Check Desk

A name sometimes given to the bookkeeping and statement departments of a bank, so called because checks received through the paying and receiving teller's window and through the clearing house are posted to the appropriate accounts in the customers' ledgers and statements of account.

### Checking Account

A bank account against which checks may be drawn against credit balances. A checking account is to be distinguished from a savings account in which deposits may be withdrawn only upon presentation of the pass-book in which deposit and withdrawal entries are made. From the bank's standpoint, checking accounts represent demand deposits, because subject to check and, therefore, to immediate withdrawal. Savings accounts represent time deposits which are not subject to check and for which notice of intention of withdrawal from 30 to 60 days may be required.

### Checking Commercial Paper

First read *Commercial Paper*.

Among banks in the larger cities a considerable amount of commercial paper is bought for investment. Since at least one-half of commercial paper is one-name paper its strength depends upon the financial responsibility and assets of the maker as disclosed by the financial statement. For this reason the note broker selling commercial paper is required to furnish a current statement of his client's business. The credit department of a bank in considering the purchase of commercial paper must conduct an investigation, *i. e.*, "check" the paper.

An investigation leading to a recommendation of purchase must show (1) a favorable condition as disclosed by the analysis of a recent statement; (2) favorable reports from other banks which have had experience with the name in question; (3) favorable reports from the trade, preferably several creditors and debtors and a competitor; (4) favorable mercantile agency reports. (See Commercial Paper, Note Brokers, Statement Analysis.)

### Check Protecting Devices

Mechanical devices designed to prevent check raising and alteration of the payee's name. Several types of machines now on the market have succeeded in minimizing the fraudulent alteration of checks. One type mechanically bruises the portion of the check into which the words and figures are injected in indelible ink into the fibre of the paper. The paper is also bruised over the payee's name to prevent erasure and insertion of a wrongful name. Another type cuts the words and figures into the check by means of small perforations. Another method of protection is to indicate on the margin of the check, or just above the signature, by imprinting the words, "Not over \$....." Postal money orders are protected on the left hand margin by a figure which represents the maximum amount payable. These devices are simple and inexpensive methods of guarding against losses arising through the raising of checks and banks should educate business houses in their use.

### Check Rate (Cheque Rate)

The basic rate in foreign exchange transactions from which all other rates are computed. Foreign exchange rates are quoted for cables, checks and time bills of 30, 60, 90 day and other maturities. The check rate is the rate quoted for checks as distinguished from the others. It is less than the cable rate, but more than the rate for time bills, for the reasons explained under the subject *Cable Rate* (q. v.). It is also known as the demand rate. In normal times the check rate fluctuates between the gold import and gold export points. (See Foreign Exchange, Gold Points, Long Rate, Short Rate.)

### Cheque

Another spelling for *Check* (q. v.), but principally used in connection with travelers' cheques.

### Chicago Board of Trade

The most important grain exchange in the United States incorporated under a special act of the Illinois Legislature, in 1859, but existing as a voluntary association since 1848. The objects of the Board of Trade as set forth in its rules are: (1) to maintain a commercial exchange; (2) to promote uniformity in the customs and usages of merchants; (3) to inculcate principles of justice and equity in trade; (4) to facilitate the speedy adjustment of busi-



ness disputes; (5) to acquire and disseminate valuable commercial and economic information; (6) to secure to its members the benefits of co-operation in the furtherance of their legitimate pursuits.

As a corporation, the Board of Trade does not engage in trading transactions which are restricted to its membership, which is not limited, but in 1922 numbered about 1700 members. The Board of Trade is a continuous market for the principal grains and farm products, and furnishes a place to trade, rules of trading, and market information for its members.

The management of the Board of Trade is vested in a board of directors consisting of eighteen members. The president is elected for one year, and two vice-presidents for two years. These officers are members of the board of directors along with fifteen others whose term of office is three years. The charter provides for the adoption of rules which may be enforced by the board of directors. The rules, by-laws and regulations have become elaborate in the past sixty years and are designed to control methods of trading, administration, and membership discipline.

The administration of the Board of Trade is partly conducted by committees. Two committees are provided for in the original charter and are elected by the membership at large, *viz.*, Committee on Arbitration, and Committee of Appeals. The other important committees chosen by the president are, Membership, Warehouse, Grain, Clearing House, Market Report, Transportation, Weighing and Custodian, Claims and Insolvencies, To Arrive Grain, and Violation of Rules.

Trading is conducted in a large room, 144 x 161 in dimensions. In this room there are many tables for displaying samples of cash grain, each table accommodating several members. For the purpose of trading in futures, there are four octagonal pits, one each for wheat, corn, oats, and provisions. The trading room is also equipped with numerous telephones, telegraph instruments, and tickers, for the purpose of receiving and disseminating market information. Large blackboards display market quotations and such market information as (1) cash grain market at other important terminals, (2) futures market at Minneapolis, Winnipeg, Duluth, St. Louis, New York, (3) visible supply of grain at other important markets, etc. (See Hedging, Pit, Speculation.)

### Chief Clerk

A name given to an executive position created in some banks, the function of which is to administer clerical routine. The chief clerk is a bank office manager and is responsible for seeing that the work of the bank, not directly in charge of department heads, is smoothly and promptly performed, that all operations move on schedule, and that proper supplies and equipment are furnished. Many of the operations of a bank, such as clearing, collections, mail, statements, etc., must be handled with great promptness and it is the chief clerk's duty to see that all engagements are met. In some banks he also acts as personnel officer, and is in charge of employment, transfer, and training of employees.

### Chose-In-Action

A law term which denotes a claim or right to personal property not in one's possession, as distinguished from property actually in one's possession, known as chose-in-possession. A claim arising out of a breach and which can be collected only by an action at law, *e. g.*, an open account which the debtor refuses to pay.

### Cipher Code

Originally a method of communicating secret written messages unintelligible to third parties—despatched by mail, telegraph or cable. The term is now applied to telegraphic or wireless messages transmitted, not in long-hand, but by a shorthand key or code, and primarily to secure condensation and economy rather than secrecy. Most international banking codes are in general use and the keys are accessible to all, so that secrecy is not the primary object. Anyone taking the pains can secure a translation and where secrecy is important, private codes must be employed.

Code messages not only secure economy by making one five-letter word the equivalent of a phrase or sentence, but accomplish five purposes: (1) economy, as explained above; (2) safety (in making payments a test word is used so that paying bank may know that the cablegram is authentic); (3) accuracy (the message must prove); (4) simplicity (the message can be boiled down to a few words), and (5) efficiency (time is saved in writing and sending the message). As an example of the economy effected by sending messages in code, an illustration taken from one of the International Banking Codes is given: "SHANY AYFAX".

SHANY means: "We accept your rate and will pay on next Friday to your correspondent in Christiania for your account."

AYFAX means: "Kroner seventy thousand."

The principal international codes are: Lieber's Five-Letter American Telegraphic Code, Western Union Code, Bentley's, Complete Phrase Code, Improved, Peterson's International Banking Code, Lloyd's Bank Code. Special private codes are often arranged by banks for exclusive use in transactions with correspondents and branches in foreign countries.

Code messages involving the transfer of funds or other items of value are tested, *i. e.*, supplied with a word or number computed by a complex formula known only to the sender and receiver. It can thus be proved to be authentic. (See Cable Transfer, Test Number.)

### Circular

See Bond Circular, Prospectus.

### Circular Letter of Credit

See Traveler's Letter of Credit.

### Circulating Assets

Same as *Current Assets* (q. v.).

### Circulating Capital

Capital invested in *Current Assets* (q. v.).

### Circulating Medium

All forms of money which have the quality of currency, *i. e.*, pass from bearer to bearer without indorsement. Circulating medium is the proper term for what is ordinarily called currency and is one of the mediums by which the exchange of goods and services take place. It includes gold coins, silver coins, minor coins, United States notes, Treasury notes, gold certificates, silver certificates, Federal Reserve notes, Federal Reserve bank notes, and National bank notes. (See Money.)

### Circulating Notes

A term applied to Federal Reserve bank notes and National bank notes, also known as circulation. (See Bank Note, Federal Reserve Bank Notes, National Bank Notes.)

### Circulation

Another item applied to circulating bank notes. (See Circulating Notes.)

### City Bonds

See Municipal Bonds.

### City Collection Department

The department of a bank which receives sight and time drafts, checks, notes, and acceptances "over the window" from local depositors and from out-of-town correspondents for collection within the city. The city collection department handles collection items only, *i. e.*, those which are credited to depositors' accounts only when, and if, actually collected. (See Country Collection Department.)

### City Collections

See Collection Items.

### City Items

A term used in banking practice to denote checks, drafts, notes, or acceptances drawn on a bank, individual, firm, or corporation located in the same city as the bank where they have been deposited for collection, either through the clearing house or by messenger.

### Civil Bonds

Bonds issued by a Government or political sub-division thereof, *e. g.*, Federal Government, state, county, municipal, district, precinct, dependent territory, as distinguished from corporation bonds. Civil bonds are supported by the good faith and taxing power of the issuing governmentality and are rarely secured by a specific pledge of collateral. (See Bond.)

### Civil Loans

Loans made by a Government or political sub-division thereof. (See Civil Bonds.)

### Class Bonds

Same as *Classified Bonds* (q. v.).

### Classified Bonds

Bonds of the same corporation issued in series, *e. g.*, Class A, Class B, Class C, etc., differing as to interest payment or issue or maturity date.

### Classified Stock

Stock of the same corporation issued in series, the first in the series having rights prior to the others, *e. g.*, first preferred stock, second preferred stock, third preferred stock, or Class A, Class B, Class C.

### Clayton Act

An Act passed on October 15, 1914, the general purpose of which was to prohibit abuses of large business combinations. It is applicable to banks in that it forbids interlocking directors among banks with more than five million dollars in combined capital, surplus, undivided profits, and deposits. It also provided that no bank in a city of over 200,000 inhabitants should have as an officer, employee or director one who is also an officer or employee of any other bank in that place. The Kern Amendment to the Clayton Act approved May 15, 1916, provides, however, that with the approval of the Federal Reserve Board any officer, director or employee of any member bank, or a "Class A" director of a Federal Reserve bank, may be an officer, director or employee of not more than two other banks organized under state or national laws, providing such other banks are not in any substantial competition with such member banks.

An amendment of the Federal Reserve Act permits any officer, director or employee of any member bank, with the approval of the Federal Reserve Board, to become an officer, director, agent, or employee of any bank engaged in international or foreign banking, including banking in any dependency or insular possession of the United States, in the capital stock of which banking corporation, the member bank has purchased shares as allowed by law. (See Federal Reserve Act.)

### Clean Bill of Exchange

A bill of exchange not accompanied by shipping documents, such as bill of lading, insurance certificate, etc., and therefore unsecured. Bankers' bills are usually clean. (See Bill of Exchange.)

### Clean Bill of Lading

One which does not lessen the issuing transportation company's liability by such restricting clauses as, "Said to contain —", "Shipper's load and count", etc., or which refers to packages as not being intact. (See Bill of Lading.)

### Clean Bond

A coupon bond that bears no indorsement or marks, as distinguished from a marked bond. (See Stamped Security.)

### Clean Credit

A letter of credit issued by a bank against which the designated foreign seller may

draw a bill without documentary support. The issuing bank engages to accept a clean bill, if otherwise drawn in accordance with the conditions imposed by the relative letter of credit. A clean credit is granted only to concerns of the highest credit standing. (See Letters of Credit.)

### Clean Documents

See Clean Bill of Lading.

### Clear

This term has four meanings:

(1) Checks are cleared through the clearing house, *i. e.*, collected or passed through for payment. (See Clearing House.)

(2) Active securities are cleared through a stock exchange clearing house. (See New York Stock Exchange Clearing House.)

(3) A legal expression meaning free from incumbrance.

(4) A vessel clears a port only after notice has been given of its intended departure and examination and leave by the Customs' officials has been given. Clearance papers constitute a certification showing that a vessel bound for a foreign port has fulfilled the requirements of the law and has authority to leave port.

### Clearance Papers

See Clear.

### Clearing House

A voluntary association of banks located in the same city joined together to facilitate the daily exchange of checks, drafts, and notes among its members, instead of separate exchanges being made directly by each bank with the others. "A clearing house may be defined as a device to simplify and facilitate the daily exchanges of items and settlements of balances among the banks and a medium for united action upon all questions affecting their mutual welfare. The tendency has been marked, especially in recent years, to include within the legitimate field of clearing houses all questions affecting the mutual welfare of the banks and the community as a whole."

The object of the New York Clearing House Association (founded in 1853), which is typical of all, is set forth in its constitution as follows: "The effecting at one place, of the daily exchanges between the members thereof and the payment at the same place of the balances resulting from such exchanges, the promotion of the interests of the members and the maintenance of



conservative banking through wise and intelligent co-operation."

At the New York Clearing House there are three exchanges daily, at 9 A. M., 10 A. M., and 3 P. M. The 9 o'clock clearing is an early clearing for delivery of checks only by banks whose volume of exchanges is especially heavy. There is merely an exchange of checks for which receipts of delivery are given, no settlement being made. The main clearing in which all member banks participate is at 10 A. M. At this time settlement is made for checks delivered at 9 A. M. and at the 3 P. M. clearing of the previous day.

The following is a brief outline of the procedure involved in the process of clearing. A bank receives through the course of business each day a great volume of checks payable at other banks in the city. To collect these checks by presentation at each bank would be a laborious and expensive process. The clearing house is a device whereby the banks in a city congregate to mutually exchange these checks among them, settling in cash or the equivalent of cash for differences. Prior to the hour of clearing, each bank prepares the checks drawn on other banks in the city by sorting them into separate piles and obtaining an adding machine total for the aggregate. This is attached to the bundle of checks, which are placed inside a large envelope bearing the name of the bank to which presentation will be made at the clearing house. The amount of the checks is also written thereon. After each bank has prepared its checks for the clearing, it delivers them to the clearing house. Upon arrival at the clearing house, each participating bank deposits with the clearing house manager a credit ticket showing the total amount of checks it has brought to the clearing house against all other banks. This constitutes the bank's credit at the clearing house. The clearing house manager then lists the credits of each bank upon the clearing house proof in the credit column under the general heading *Credit, Amounts Brought*.

The *Clearing House Proof* (q. v.) consists of a list of the clearing house banks and their numbers, to the right of which are four columns for total debits and total credits and debit and credit balances. The total credit is placed in the credit column from the total credit ticket presented by each bank upon arrival. The total debit for each bank cannot be determined until after the clearing process has been completed. This is accomplished as follows:

Each member bank usually sends two clerks to the clearing house, one a settlement clerk and the other a delivery clerk. When the bell announcing the time of clearing is rung, the delivery clerks deliver the envelopes intended for each bank at their respective desks in numerical order and obtain a receipt for it. After the checks have been delivered, the settlement clerk for each bank must determine the total of the amounts that have been presented to him by other members, that is, the total charges against the bank he represents. After this amount has been computed, the settlement clerk for each bank turns over the total debit against the bank to the clearing house manager who lists the amount beside the appropriate bank's name in the debit column under the general heading *Debit, Amount Received*. When all the debit totals are in, the clearing house manager foots the debit and credit columns, which must agree, for the reason that the total checks taken to the clearing house must equal the total taken away. Then the clearing house manager determines the difference between the total debit and credit for each bank, carrying over the balance into either the debit or credit column under the general heading, *Balances*, as the case may require. Obviously, since the totals of the checks brought to and taken from the clearing house are equal, *the total of the debit balances must equal the total of the credit balances*. The clearing house manager will then determine which banks are creditors and which are debtors to the clearing house. If the debit and credit columns of totals and balances do not agree, some error has been made and it is necessary for the settlement clerks to check their work until the error or errors have been discovered.

The balances owing to the creditor banks must be paid the same day. Settlements may be made in several different ways, by cash, by drafts on banks in other cities, by the debtor bank borrowing from the creditor bank, by checks on debtor banks given to creditor banks, and finally by bookkeeping entries on the books of the Federal Reserve bank. Where all the members of the clearing house are also members of the Federal Reserve bank, the most convenient method of arranging settlements is the latter. Instead of paying off the balances by check, or actual cash, at a clearing house, a debit or credit, as the case may be, is placed upon each bank's account with the Federal Reserve bank from a certified copy of the clearing house manager's settlement sheet.

The clearing house is one of the greatest labor-saving house devices yet invented. The New York Clearing House alone has cleared between five hundred million and seven hundred million dollars per day, with about seventy-five millions in balances. By arranging settlements through the Federal Reserve bank, even the balances are liquidated by means of book debits and credits, so that millions of dollars of transactions are paid off each day without involving the transfer of a single penny of actual cash.

The expenses of the clearing house are borne by the member banks, usually in proportion to the number of checks which each passes through per year.

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#### Clearing House Agent

A member of a clearing house which clears the checks of another bank which is not.

#### Clearing House Balance

The total of the debit and credit balances at a clearing house each day as distinguished from the aggregate of checks, debits and credits. A report of the clearing house totals and balances is published daily in the financial section of the local newspapers.

#### Clearing House Bank Return

See Clearing House Statement.

#### Clearing House Certificates

J. G. Cannon says there are two kinds of clearing house certificates: (1) those secured by a deposit of gold coin; and (2) those secured by a deposit of collateral securities. The former are employed in ordinary times as a means of settling clearing house balances solely as a measure to economize time, labor and expense, by minimizing the risk in handling large sums of money. The latter, properly called *Clearing House Loan Certificates* (q. v.), are employed in times of financial disturbance or panic. Both are used exclusively for the purpose of

settling clearing house balances among the members of the association.

#### Clearing House Committees

The New York Clearing House Association has five standing committees which are elected annually from the officers of members. These committees are as follows: clearing house committee conference committee, committee on admissions, nominating committee and arbitration committee. The clearing house committee is the most important and its duties consist of the following: (1) to appoint the manager and all necessary employees; (2) to collect moneys and supervise expenditures; (3) to establish rules and regulations not provided for in the constitution; (4) to examine the members of the association; (5) to establish rules regarding collections on out-of-town banks and fixing the rates to be charged therefor; and (6) to establish a scale of fines for errors, disorderly conduct, and other irregularities. (See Clearing House).

#### Clearing House Exchange Rates

Rates of exchange (usually minima) established by a Clearing House Association, which members thereof are bound to observe, penalties being provided for violations. The establishment of uniform exchange rates for Clearing House members in New York City grew out of the severe competition of members for deposits, many banks receiving checks drawn on out-of-town points for deposit at par, ignoring any exchange charge. This arrangement seemed unfair in view of the fact that Southern and Western banks continued to charge exchange for checks received for deposit and drawn upon New York banks, with the result that the New York banks sustained losses through collection of these checks at par. Accordingly, the New York Clearing House Association, in the interests of conservative banking, and in order to discourage circuitous routing of items, and to place all members on an even plane of competition, has prescribed minimum exchange charges. This schedule of rates is established by the Clearing House Committee and has been and may be revised from time to time. In this schedule, points in adjoining states are par points, and many points further away are discretionary, *i. e.*, the rate of exchange is discretionary with the bank receiving the item for deposit.

The rate of exchange upon items that must be collected in out-of-town points depends upon three variables, *viz.*: (1) the kind of

item, *i. e.*, whether checks and drafts, banker's acceptances, or other items (banker's acceptances receive a preferential rate); (2) whether the bank on which the item is drawn is located in a Federal Reserve bank city (or branch city), or elsewhere (the former being accorded a lower rate), and (3) the mail time between the point of deposit and the point of collection.

The rules and regulations of the New York Clearing House regarding collections of out-of-town items are reproduced below:

**RULES AND REGULATIONS  
REGARDING COLLECTIONS OUTSIDE OF THE CITY OF  
NEW YORK**

(Revised to March 1st, 1921.)

Pursuant to authority conferred upon it by the Constitution of the New York Clearing House Association, the Clearing House Committee of said Association establishes the following rules and reg-

ulations regarding collections outside of the City of New York (except as to items on clearing non-members), by members of the Association, or banks, trust companies, or others clearing through such members, and the rates to be charged for such collections, and also regarding enforcement of the provisions hereof:

SEC. 1. These rules and regulations shall apply to all members of the Association and to all banks, trust companies or others clearing through such members, but not to branches in foreign countries of member institutions. The parties to which the same so apply are hereinafter described as collecting banks.

SEC. 2. For all items deposited by or collected for the account of the Governments of the United States, the State of New York or the City of New York, from whatever source received (but not checks, warrants, etc., issued by said Governments and deposited by or collected for the account of the banks' other customers), the charge shall be discretionary with the collecting banks.

SEC. 3. For checks or drafts drawn on banks, bankers and trust companies, and for all other items, the charges shall not be less than those prescribed for the respective points in the following Schedule, subject to the provisions of Sections 4, and 6:

STATES	CHECKS OR DRAFTS DRAWN ON BANKS, BANKERS AND TRUST COMPANIES	BANKERS' ACCEPTANCES	ALL OTHER ITEMS
†Alabama .....	1/10 of 1%	\$1/40 & 1/10 of 1%	1/10 of 1%
Birmingham .....	1/40	Discretionary	1/10
Arizona .....	1/10	1/40	1/10
Arkansas .....	1/20	1/40	1/10
Little Rock .....	1/20	Discretionary	1/10
California .....	1/10	1/40	1/10
Los Angeles .....	1/20	Discretionary	1/10
San Francisco .....	1/20	"	1/10
Colorado .....	1/10	1/40	1/10
Denver .....	1/20	Discretionary	1/10
Connecticut .....	Discretionary	1/40	1/10
Delaware .....	"	1/40	1/10
District of Columbia .....	"	1/40	1/10
†Florida .....	1/10	\$1/40 & 1/10	1/10
Jacksonville .....	1/40	Discretionary	1/10
†Georgia .....	1/10	\$1/40 & 1/10	1/10
Atlanta .....	1/40	Discretionary	1/10
Idaho .....	1/10	1/40	1/10
Illinois .....	1/20	1/40	1/10
Chicago .....	1/40	Discretionary	1/10
Indiana .....	1/20	1/40	1/10
Iowa .....	1/20 of 1%	1/40 of 1%	1/10 of 1%
Kansas .....	1/20	1/40	1/10
Kansas City .....	1/20	1/40	1/10
Kentucky .....	1/20	1/40	1/10
Louisville .....	1/40	Discretionary	1/10
†Louisiana .....	1/10	\$1/40 & 1/10	1/10
New Orleans .....	1/20	Discretionary	1/10
Maine .....	Discretionary	1/40	1/10
Maryland .....	"	1/40	1/10
Baltimore .....	"	Discretionary	1/10
Massachusetts .....	"	1/40	1/10
Boston .....	"	Discretionary	*Discretionary
Michigan .....	1/20	1/40	1/10
Detroit .....	1/40	Discretionary	1/10
Minnesota .....	1/20	1/40	1/10
Minneapolis .....	1/40	Discretionary	1/10
St. Paul .....	1/40	"	1/10
†Mississippi .....	1/10	\$1/40 & 1/10	1/10
Missouri .....	1/20	1/40	1/10
Kansas City .....	1/20	Discretionary	1/10
St. Louis .....	1/40	"	1/10
Montana .....	1/10	1/40	1/10
Helena .....	1/20	Discretionary	1/10
Nebraska .....	1/10	1/40	1/10
Omaha .....	1/20	Discretionary	1/10
Nevada .....	1/10	1/40	1/10
New Hampshire .....	Discretionary	1/40	1/10
New Jersey .....	"	1/40	1/10
Hoboken .....	"	Discretionary	*Discretionary
Jersey City .....	"	"	"
New Mexico .....	1/10	1/40	1/10

SCHEDULE OF NEW YORK CLEARING HOUSE EXCHANGE RATES



STATES	CHECKS OR DRAFTS DRAWN ON BANKS, BANKERS AND TRUST COMPANIES	BANKERS' ACCEPTANCES	ALL OTHER ITEMS
New York .....	Discretionary	1/40	1/10
Buffalo .....	"	Discretionary	1/10
New York City .....	"	"	Discretionary
North Carolina .....	1/20	1/20	1/10
North Dakota .....	1/10	1/40	1/10
Ohio .....	1/20	1/40	1/10
Cincinnati .....	1/40	Discretionary	1/10
Cleveland .....	1/40	"	1/10
Oklahoma .....	1/10	1/40	1/10
Oklahoma City .....	1/20	Discretionary	1/10
Oregon .....	1/10	1/40	1/10
Portland .....	1/20	Discretionary	1/10
Pennsylvania .....	Discretionary	1/40	1/10
Philadelphia .....	"	Discretionary	* Discretionary
Pittsburgh .....	"	"	1/10
Rhode Island .....	"	1/40	1/10
† South Carolina .....	1/10	1/20	1/10
South Dakota .....	1/10	1/40	1/10
† Tennessee .....	1/10	§ 1/40 & 1/10	1/10
Memphis .....	1/20	Discretionary	1/10
Nashville .....	1/40	"	1/10
Texas .....	1/10	1/40	1/10
Dallas .....	1/20	Discretionary	1/10
El Paso .....	1/20	"	1/10
Houston .....	1/20	"	1/10
Utah .....	1/10	1/40	1/10
Salt Lake City .....	1/20	Discretionary	1/10
Vermont .....	Discretionary	1/40	1/10
Virginia .....	1/40	1/40	1/10
Richmond .....	Discretionary	Discretionary	1/10
Washington .....	1/10	1/40	1/10
Seattle .....	1/20	Discretionary	1/10
Spokane .....	1/20	"	1/10
West Virginia .....	1/20	§ 1/40 & 1/20	1/10
Wisconsin .....	1/20	1/40	1/10
Wyoming .....	1/10	1/40	1/10

\* Except Purchased Paper. See Section 6 (B). § See Bankers' Acceptances Schedule.

† See Section 4 (B).

SCHEDULE OF NEW YORK CLEARING HOUSE EXCHANGE RATES — (CONTINUED)

SEC. 4. (A) The charge for checks and drafts drawn on banks, bankers and trust companies located in Federal Reserve cities and cities where Federal Reserve Bank branches are at present or may hereafter be established, shall be governed by the "Schedule showing when the proceeds of ITEMS will become available," as published by the Federal Reserve Bank of New York from time to time; that is to say, for such items on said cities where immediate credit is given and for such items which become available one day after receipt, the charge shall be discretionary; for such items available two days after receipt, the charge shall be 1/40 of 1%; for such items available three, four and five days after receipt, the charge shall be 1/20 of 1%; and for items available eight days after receipt the charge shall be 1/10 of 1%.

(B) Whenever the Federal Reserve Bank of New York shall add to its par list as an all-par state, any state not now listed thereon as such (the present non-par states are indicated by † in the Schedule under Section 3) the charge for checks and drafts drawn on banks, bankers and trust companies located in such added state (except in cities having Federal Reserve banks and their branches) shall thereupon be automatically fixed to correspond with, and be governed by, the charges specified in (A) of this Section 4, according to the said "Schedule showing when the proceeds of ITEMS will become available," as published by the Federal Reserve Bank of New York.

SEC. 5. In case the charge upon any item at the rates above specified does not equal ten (10) cents, the collecting bank shall charge not less than that sum; but all items received in any one deposit and subject to the same rate, may be added together and treated as one item for the purpose of determining the amount of exchange to be charged.

SEC. 6. (A) On acceptances of banks, bankers, and trust companies taken by member or clearing

non-member institutions the charge shall be governed by the "Schedule showing when the proceeds of BANKERS' ACCEPTANCES will become available," as published by the Federal Reserve Bank of New York from time to time; that is to say for such items for which credit is available at the Federal Reserve Bank of New York on the day of maturity, the charge shall be discretionary; where credit is available at said bank one or two days after maturity, 1/40 of 1%; where credit is available at said bank three or four days after maturity, 1/20 of 1%; where credit is available at said bank later than four days after maturity, 1/10 of 1%.

(B) All notes or other time obligations, not provided for in Sub-division A of this Section, purchased by member or clearing non-member institutions payable elsewhere than in New York City, shall be subject to a charge of not less than 1/10 of 1%, provided, however, that for notes or other time obligations purchased or discounted by any collecting bank, payable elsewhere than in New York City, but with respect to which, the maker, endorser or guarantor; or any bank, banker or trust company maintaining an account with the collecting bank, gives a written agreement at the time of such purchase or discount, that payment is to be provided in New York City on date of maturity in New York funds at par, the charge shall be discretionary.

SEC. 7. The charges herein specified shall in all cases be collected at the time of deposit or not later than the tenth day of the following calendar month. No collecting bank shall, directly or indirectly, allow any abatement, rebate, or return for or on account of such charges or make in any form, whether of interest on balances or otherwise, any compensation therefor.

SEC. 8. In case any member of the Association shall learn that these rules and regulations have

been violated by any of the collecting banks, it shall immediately report the facts to the Chairman of the Clearing House Committee, or, in his absence, to the Manager of the Association. Upon receiving information from any source that there has been a violation of the same, said Chairman, or, in his absence, said Manager, shall call a meeting of the Committee. The Committee shall investigate the facts and determine whether a formal hearing is necessary. In case the Committee so concludes, it shall instruct the Manager to formulate charges and present them to the Committee. A copy of these charges, together with written notice of the time and place fixed for hearing regarding the same, shall be served upon the collecting bank charged with such violation, which shall have the right at the hearing to introduce such relevant evidence and submit such argument as it may desire. The Committee shall hear whatever relevant evidence may be offered by any person and whatever arguments may be submitted and shall determine whether the charges are sustained. In case it reaches the conclusion that they are, the Committee shall call a special meeting of the Association and report thereto the facts with its conclusions. *If the report of the Committee is approved by the Association, the collecting bank charged with such violation shall pay to the Association the sum of five thousand dollars, and in case of a second violation of these rules and regulations, any collecting bank may also in the discretion of the Association be excluded from using its privileges directly or indirectly, and, if it is a member, expelled from the Association.*

*Resolved*, that the foregoing rules and regulations are hereby established and adopted to take effect upon the 12th day of August, 1918.

#### RULINGS ON AND INTERPRETATIONS OF SOME OF THE FOREGOING RULES AND REGULATIONS (August 12th, 1918.)

##### A

All applications for rulings on regulations regarding collection charges must be made in writing and addressed to the Clearing House Committee. All rulings will be printed and sent to members and other institutions connected with the New York Clearing House.

##### B

The Clearing House rules contemplate the charging of collection rates on all out of town items, from whatever source derived, unless otherwise provided in the rules. This ruling is made comprehensive in order to meet ingenious cases for evasion.

##### C

A ruling has been asked on the following:

A suggestion that drafts be deposited in other than discretionary cities with the correspondents of a New York Clearing House member in such cities, to the credit of such member, the depositor to receive credit in the New York institution at par immediately upon notification of such deposit, and to be allowed to draw against such credits the same as against New York funds:—

It is held that this and similar cases are contravention of Clearing House rules. If exceptions were allowed the flood of cases would practically nullify the rules.

In the case of bought paper the broker should allow the charge as part of the purchase.

##### D

No exception is made to the general rules governing collection charges for items drawn "with exchange," or bearing similar phrases, or when stamped "collectible at par through any Federal Reserve Bank." Such items must be charged for in accordance with the within named rates.

Counsel has ruled that checks stamped "payable in exchange" are not negotiable; therefore, such checks should not be accepted for deposit.

##### E

When items, subject to collection charges, are returned unpaid, the charge may be remitted.

##### F

Stocks, Bonds and Coupons, and Drafts with Securities, Bills of Lading or Collateral attached, are subject to the rules governing collection charges.

When such drafts are drawn on banks, bankers and trust companies the charge shall be that prescribed in the first column of the schedule contained in Section 3 of the Rules and Regulations Regarding Collections Outside of the City of New York, and when drawn on others the charge shall be that prescribed for "All other Items," in the third column of the schedule. (January 22, 1923.)

##### G

Any agreement, expressed or implied, entered into by a Clearing House member or by a non-member clearing through a member, with any individual, firm or corporation, by the terms of which it is intended that the rate of interest agreed to be paid on deposits is to offset and compensate for charges made on out of town checks, is a violation of Clearing House rules, and if brought to the attention of the Committee will be dealt with as provided by Section 8 of the Clearing House rules and regulations relating to the charges on out of town items.

##### H

The charge on *Officers' checks of any Federal Reserve Bank* and Federal Reserve exchange drafts which bear the statement, "Any Federal Reserve Bank will receive this draft for immediate availability at par," is discretionary. (January 22, 1923.)

##### I

Items deposited for account of the U. S. Shipping Board Emergency Fleet Corporation are not to be considered as items "deposited by or collected for the account of the Government of the United States," as provided for in Section 2, and the charge for the collection of such items when payable at chargeable points is not discretionary. (April 4th, 1921.)

(See Clearing House, Domestic Exchange.)

### Clearing House Loan Certificates

"Temporary loans made by banks associated together as a clearing house association, to the members thereof, for the purpose of settling clearing house balances. Such certificates are negotiable, as a rule, only among the members of the association, and are not in any sense to be regarded as currency."\*

The purpose of issuing these certificates is to relieve the shortage of currency in times of financial disturbance or panic. They are a form of emergency currency for use in settling clearing house balances only, and are issued up to a percentage varying in the past from 50 to 100 per cent. of the value of the securities deposited to secure them.

Under the defective rigid currency system existing before the Federal Reserve Act, banks always had plenty of good collateral during a time of crisis, but had no means of converting it into cash. Money was so scarce that liquidation of these securities by sale in the open market would occasion prohibitive sacrifices. The issue of

\* J. G. Cannon: Clearing House.

NEW YORK CLEARING HOUSE PROOF.					
Proof Announced . . . . .					
Presented . . . . .					
Made by . . . . .		Checked by . . . . .			
Filed . . . . .					
No.	MEMBERS	DEBIT BALANCES DUE CLEARING HOUSE	DEBIT. AMOUNTS RECEIVED	CREDIT. AMOUNTS BROUGHT	CREDIT BALANCES DUE MEMBERS
1	Bank of New York, and Trust Co				1
2	Bank of the Manhattan Company,				2
4	Mechanics & Metals Nat'l Bank,				4
6	Bank of America,				6
8	National City Bank,				8
12	Chemical National Bank,				12
15	Nat'l Butchers' and Drovers' Bk.				15
17	Greenwich Bank,				17
21	American Exchange Nat'l Bank,				21
23	National Bank of Commerce,				23
28	Pacific Bank,				28
30	Chatham & Phenix Nat'l Bank,				30
33	Hanover National Bank,				33
45	Corn Exchange Bank,				45
53	Importers' and Traders' Nat'l Bk.,				53
54	National Park Bank,				54
59	East River National Bank,				59
65	First National Bank,				65
67	Irving National Bank,				67
70	Bowery Bank,				70
72	Continental Bank,				72
74	Chase National Bank,				74
76	Fifth Avenue Bank,				76
78	Commonwealth Bank,				78
81	Garfield National Bank,				81
82	Fifth National Bank,				82
85	Seaboard National Bank,				85
96	State Bank,				96
99	Coal and Iron National Bank,				99
103	Bankers' Trust Company,				103
104	U. S. Mortgage and Trust Co.,				104
106	Title Guarantee and Trust Co.,				106
107	Guaranty Trust Company,				107
108	Fidelity-International Trust Co.				108
110	Lawyers' Title and Trust Co.,				110
111	Columbia Trust Company,				111
114	New York Trust Company,				114
117	Metropolitan Trust Company,				117
120	Federal Reserve Bank of N. Y.				120
121	Farmers' Loan & Trust Co.				121
122	Columbia Bank,				122
123	Equitable Trust Company,				123
200	New York Clearing House,				200

This certifies that the balances as above have been adjusted through the FEDERAL RESERVE BANK  
OF NEW YORK, this day 5

Correct: \_\_\_\_\_ Manager \_\_\_\_\_ For Federal Reserve Bank of New York



clearing house loan certificates secured by valuable collateral was the means of tidying over the emergency. They were issued to such members of the association as desired them by a deposit of approved securities, accompanied by their interest-bearing notes. These certificates bore interest at rates varying from 5 to 10 per cent. payable by the banks to which they were issued to the banks accepting them in settlement of daily balances. The aim was to fix the rate high enough to insure the retirement of the certificates as soon as the emergency situation had passed.

Clearing house loan certificates were used by the New York Clearing House Association in 1860, 1861, 1863, 1864, 1873, 1884, 1890, 1893, 1907 and 1914. Not all members of the Clearing House Association which had certificates issued to them found it necessary to resort to their use. Banks in an especially strong position have been able to ride the gale without them, but banks with weaker reserves were frequently saved from disaster by their use. As soon as the period of panic gives way to easier conditions and money becomes plentiful, the clearing house loan certificates are retired and the collateral supporting them returned to their owners.

Under the Federal Reserve System which provides for rediscounts and elastic currency, it is doubtful whether Clearing House Loan Certificates will ever again need to be used. The real explanation of the necessity to resort to these certificates in the past lay in an organic defect in the National banking system, *viz.*, failure to provide for *Elastic Currency* (q. v.), which expands and contracts with the needs of business.

### Clearing House Proof

A proof of each day's clearings at a clearing house as determined by the clearing house manager, as the result of the clearing process. This proof shows the amount brought to and received from the clearing house by each member, and the credit or debit balance of each. The proof is secured by reaching an agreement between the total debits and credits, and between the total debit and credit balances.

In the New York Clearing House (and a few others), a certified copy of the clearing house proof is used as a journal entry by which the balances due to or from each member may be adjusted through the books of the Federal Reserve bank. In New York City from \$800,000,000 to more than \$1,000,-

000,000 is settled each day without the transfer of a single penny of cash.

A fac simile of the New York Clearing House Proof is reproduced on the foregoing page.

### Clearing House Settlement

Payment by a bank of its debit balance to, or receipt of its credit balance from, the clearing house. It is really an adjustment by each bank with all other banks of the association of their mutual claims against one another. Payment of balances may be effected in a variety of ways. (See Clearing House.)

### Clearing House Settlement Sheet

A sheet prepared by each member of a clearing house association showing the amount of checks, etc., which it holds against each other bank of the association, and which will be presented for collection at the next clearing. The total of this sheet, *i. e.*, the aggregate of claims against other members, represents the bank's credit balance at the clearing house. (See Clearing House.)

### Clearing House Statement

A statement issued periodically, usually once a week, by the larger clearing house associations, which displays in condensed and detailed form the financial condition (loans, investments, legal reserve, vault cash, demand and time deposits) of the member banks.

On pages 110 and 111 will be found a statement of the New York Clearing House members as of January 20, 1923. It will be noted that condensed figures are given for all members, showing the actual condition at the close of business on January 20, 1923, and that another set of figures exhibits the average condition for the entire week preceding. A third display shows the condition of the individual members.

### Clearing House Stocks

Stocks which may be cleared through the *New York Stock Exchange Clearing House* (q. v.).

### Clearing Member Bank

A bank which is not a member of the Federal Reserve System, but which may collect its out-of-town checks, etc., through the Federal Reserve check collection system. Banks can become clearing members by keeping a balance with the Federal Reserve bank of their district against which incom-

NEW YORK ASSOCIATED BANKS  
STATEMENT AT CLOSE OF BUSINESS JAN. 20, 1923

ACTUAL CONDITION, CHANGES FOR THE WEEK

Excess reserve .....	Inc.	\$12,042,800
Loans .....	Dec.	953,000
Net Demand Deposits .....	Dec.	138,479,000
Net time deposits .....	Inc.	43,574,000
Cash in vault Federal Reserve members .....	Dec.	5,852,000
Reserve in Federal Reserve Bank, member banks .....	Dec.	4,177,000
Reserve in own vaults, State banks and trust companies .....	Dec.	652,000
Reserve in other depositories, State banks and trust companies .....	Inc.	225,000
Circulation .....	Inc.	100,000

ACTUAL CONDITION, ALL MEMBERS

	1923	1922	1921
Loans .....	\$4,782,324,000	\$4,430,234,000	\$5,154,064,000
Bills pay., redis., accept and other liabilities .....	516,960,000	412,167,000	1,147,237,000
* Demand deposits .....	3,944,466,000	3,884,281,000	3,927,460,000
Time deposits .....	446,078,000	235,761,000	254,987,000
Circulation .....	30,624,000	32,947,000	34,407,000
Cash in vault, Federal Reserve members .....	53,160,000	63,972,000	81,372,000
Reserve in Federal Reserve Bank, member banks .....	527,931,000	535,720,000	514,038,000
Reserve in other depos., banks and trust companies .....	9,542,000	9,767,000	10,038,000
Cash in vault, State banks and trust companies .....	7,811,000	8,329,000	9,093,000
Aggregate reserve .....	\$545,284,000	\$553,816,000	\$533,169,000
Reserve required .....	528,147,560	514,190,030	520,741,360
Excess reserve .....	\$17,136,440	\$39,625,970	\$12,427,640

\* Government deposits of \$82,376,000 deducted. Last week such deposits were \$63,576,000.

AVERAGE CONDITION, CHANGES FOR THE WEEK

Excess reserve .....	Dec.	\$281,040
Loans .....	Inc.	34,522,000
Net demand deposits .....	Dec.	4,598,000
Net time deposits .....	Inc.	18,061,000
Cash in vault Federal Reserve members .....	Dec.	5,161,000
Reserve in Federal Reserve Bank, member banks .....	Dec.	356,000
Reserve in own vaults, State banks and trust companies .....	Dec.	241,000
Reserve in other depositories, State banks and trust companies .....	Inc.	258,000
Circulation .....	Inc.	117,000

AVERAGE CONDITION, ALL MEMBERS

	1923	1922	1921
Loans .....	\$4,802,216,000	\$4,460,886,000	\$4,986,404,000
Bills pay., redis., accept. and other liabilities .....	481,518,000	378,021,000	1,116,105,000
* Demand deposits .....	4,008,889,000	3,907,305,000	3,935,384,000
Time deposits .....	422,107,000	235,715,000	263,473,000
Circulation .....	30,561,000	33,121,000	34,316,000
Cash in vault, Federal Reserve members .....	55,213,000	65,495,000	84,761,000
Reserve in Federal Reserve Bank member banks .....	530,231,000	499,218,000	516,966,000
Reserve in other depos., banks and trust companies .....	9,585,000	8,996,000	9,652,000
Cash in vault, State banks and trust companies .....	8,033,000	8,353,000	9,103,000
Aggregate reserve .....	\$547,849,000	\$516,567,000	\$535,721,000
Reserve required .....	535,752,410	517,100,100	521,942,860
Excess reserve .....	\$12,096,590	.....	\$13,778,140
Deficit in reserve .....	.....	\$533,100	.....

\* Government deposits of \$96,539,000 deducted. Last week such deposits were \$95,478,000.

ing collections may be charged. A further qualification is that clearing members must agree to accept all checks drawn on, and presented against them, at par. All National banks and practically all state banks and trust companies throughout the United States are clearing member banks. (See Federal Reserve Check Collection System, Par Clearances, Par List.)

**Clearings**

See Bank Clearings.

**Clique**

An informal group of persons or financial interests who work for a common end, and as applied to stock speculation, a group organized to manipulate the price of a security, or group of securities. In financial reviews, bull cliques and bear cliques are often referred to as groups of individuals interested in forcing prices up or down. A clique differs from a pool in that there is no formal written agreement, nor is the management of the clique in the hands of a particular

**CLEARING HOUSE BANK RETURN**  
**AVERAGE FIGURES WEEK ENDED JAN. 20, 1923**  
**BANKS AND TRUST COMPANIES MEMBERS OF FEDERAL RESERVE BANK**

	Loans, Discount, Investments, etc.	Cash in vault.	Reserve with Legal Depositories.	Net Demand Deposits.	Time Deposits.
Bank of N. Y. & T. Co.....	\$64,448,000	\$740,000	\$6,606,000	\$48,582,000	\$5,625,000
Bank of Manhat. Co. ....	126,728,000	2,394,000	14,660,000	105,060,000	16,992,000
Mech. & Metals Nat.....	171,181,000	4,333,000	21,289,000	158,978,000	4,797,000
Bank of America .....	73,420,000	1,735,000	9,447,000	72,597,000	2,787,000
National City Bank .....	518,235,000	6,590,000	61,571,000	(a) 568,455,000	54,196,000
Chemical National .....	125,530,000	1,124,000	14,194,000	105,965,000	9,562,000
Nat. Butch. & Drov. ....	4,814,000	78,000	573,000	3,907,000	10,000
American Exch. Nat. ....	105,240,000	1,362,000	12,089,000	91,671,000	7,190,000
Nat. Bank of Com.....	322,578,000	956,000	34,117,000	261,007,000	13,417,000
Pacific Bank .....	24,156,000	1,178,000	3,612,000	24,286,000	1,027,000
Chat. & Phenix Nat. ....	150,453,000	4,967,000	18,456,000	122,897,000	23,286,000
Hanover National .....	123,471,000	416,000	15,436,000	111,935,000	.....
Corn Exch. Bank .....	173,268,000	6,667,000	22,600,000	156,680,000	22,769,000
Import. & Trad. Nat.....	36,321,000	525,000	3,771,000	28,369,000	767,000
National Park Bank.....	165,485,000	983,000	17,929,000	136,637,000	4,643,000
East River National .....	14,369,000	337,000	1,670,000	12,175,000	2,171,000
First National Bank .....	350,372,000	483,000	23,727,000	177,215,000	28,144,000
Irving Bank .....	195,240,000	4,058,000	26,770,000	197,396,000	7,321,000
Continental Bank .....	7,765,000	134,000	1,016,000	6,227,000	365,000
Chase National Bank .....	366,535,000	4,384,000	44,722,000	322,614,000	48,110,000
Fifth Avenue Bank .....	22,471,000	774,000	3,265,000	23,687,000	.....
Commonwealth Bank .....	9,194,000	469,000	1,129,000	8,629,000	208,000
Garfield Nat. Bank .....	15,376,000	459,000	2,093,000	14,753,000	25,000
Fifth National Bank .....	17,933,000	254,000	2,304,000	17,286,000	748,000
Seaboard Nat. Bank .....	78,977,000	1,159,000	10,086,000	76,465,000	1,630,000
Coal & Iron Nat. ....	15,701,000	649,000	1,809,000	13,301,000	835,000
Bankers Trust Co. ....	272,934,000	1,017,000	30,243,000	(b) 237,770,000	16,632,000
U. S. Mort. & Trust .....	53,043,000	896,000	6,277,000	45,604,000	4,506,000
Guaranty Trust Co. ....	386,703,000	1,309,000	46,418,000	(c) 411,289,000	28,967,000
Fidelity-Inter. Trust .....	20,713,000	362,000	2,553,000	19,430,000	679,000
Columbia Trust Co. ....	79,867,000	820,000	9,941,000	76,008,000	5,789,000
New York Trust Co. ....	138,610,000	461,000	16,618,000	123,036,000	8,554,000
Metropolitan Trust .....	38,931,000	508,000	4,486,000	32,678,000	4,407,000
Farmers Loan & Trust .....	128,610,000	520,000	13,300,000	(d) 96,060,000	24,243,000
Columbia Bank .....	30,180,000	721,000	3,887,000	29,748,000	2,255,000
Equitable Trust Co. ....	186,437,000	1,391,000	21,567,000	(e) 189,599,000	13,070,000
<b>Total .....</b>	<b>\$4,615,289,000</b>	<b>\$55,213,000</b>	<b>\$530,231,000</b>	<b>*\$3,905,552,000</b>	<b>\$365,727,000</b>
<b>STATE BANKS NOT MEMBERS OF FEDERAL RESERVE BANK</b>					
Greenwich .....	\$18,944,000	\$1,685,000	\$2,077,000	\$19,847,000	\$52,000
Bowery .....	5,891,000	394,000	371,000	2,959,000	2,168,000
State .....	84,063,000	3,421,000	1,853,000	29,137,000	52,258,000
<b>Total .....</b>	<b>\$108,898,000</b>	<b>\$5,500,000</b>	<b>\$4,301,000</b>	<b>\$51,943,000</b>	<b>\$54,478,000</b>
<b>TRUST COMPANIES NOT MEMBERS OF FEDERAL RESERVE BANK</b>					
Title Guar. & Trust .....	\$52,053,000	\$1,536,000	\$3,653,000	\$34,544,000	\$1,011,000
Lawyers Title & Trust.....	25,976,000	997,000	1,631,000	16,850,000	891,000
<b>Total .....</b>	<b>\$78,029,000</b>	<b>\$2,533,000</b>	<b>\$5,284,000</b>	<b>\$51,394,000</b>	<b>\$1,902,000</b>
<b>Grand total .....</b>	<b>\$4,802,216,000</b>	<b>\$63,246,000</b>	<b>\$539,816,000</b>	<b>†\$4,008,889,000</b>	<b>\$422,107,000</b>
Include deposits in foreign branches not included in footings: (a) \$109,823,000, (b) \$10,271,000,					
(c) \$74,776,000, (d) \$17,000, (e) \$27,557,000.					
Balances carried in banks in foreign countries as reserve for such deposits: (a) \$26,245,000,					
(b) \$1,483,000, (c) \$10,030,000, (d) \$17,000, (e) \$3,610,000.					

\* Deposits in foreign branches not included.

† United States deposits deducted.

person. In a clique there is merely an informal understanding that a certain stock is to be exploited, while in a pool, there is a written agreement in which the profits or losses are shared by the members. (See Manipulation, Pool.)

### Clock Lock

See Time Lock.

### Clock Stamp

A device for imprinting the hour and day of arrival upon all mail and other matter received. Such a stamp is useful for future

reference purposes and to test the efficiency and speed in filling orders or answering letters.

### Close (Closed) Corporation

A corporation, the shares of which are held by a few persons, usually officers, employees, or others close to the management, and which are rarely offered to the public.

### Closed Mortgage

A mortgage which precludes further indebtedness on the property which it pledges as security, *i. e.*, the limit which can be bor-



rowed under the mortgage has already been attained. Such a mortgage is advantageous to its purchaser or to bond holders whose security consists therein. (See Mortgage.)

### Closed Out

An expression used to indicate that one's speculative account has been sold out against his consent because of insufficient margin, or to indicate that a business has been disposed of or liquidated.

### Close Money

Money obtained at fairly high interest rates. Close money rates are not as high as for *Tight Money* (q. v.).

### Close Prices

An expression used to describe the stock market when changes in prices between successive transactions are small fractions, or when the final bid and asked quotations differ by small fractions.

### Closing an Account

When a bank account is closed as shown by a complete withdrawal of the deposit balance, notice is sent by the bookkeeper (ledger clerk) to the new business department and credit department for their information and records. The reason for closing an account is usually ascertained, if possible, and recorded. Frequently a letter is written, or a representative sent to the customer in the interest of ascertaining the cause of withdrawing the account and to attempt to secure a reinstatement thereof.

### Closing Price

The price at which the last sale of each stock, bond, or commodity is effected daily on a stock or produce exchange. These prices are quoted in the daily newspapers, usually with the opening (first) high, and low prices of the day. The net change in price of a security as reported from day to day is the difference between the closing prices of successive days.

### Closing the Books

An expression used to refer to the closing of stock transfer books on a date fixed by the board of directors of a corporation at the time dividends are declared, in order to determine the stockholders of record, *i. e.*, those entitled to receive dividends. The last date for transferring stock in order to participate in the dividend is the day the books

close, the following day the stock being sold *ex-dividend*. Closing the books enables the transfer agent to prepare a list of the stockholders so that dividends may be sent to the stockholders of record. (See Stockholders of Record, Stock Transfers.)

### Coalers

An expression which refers to those railroads, a large part of the freight traffic of which consists in hauling coal. The chief roads which haul anthracite are the Delaware Lackawanna & Western, Central of New Jersey, Lehigh Valley, Delaware & Hudson, and Reading; those which haul bituminous are, Chesapeake & Ohio, Baltimore & Ohio, Pennsylvania, Norfolk & Western, Hocking Valley, and Pittsburgh & West Virginia.

### Co-Assignee

A joint *Assignee* (q. v.).

### Code

See Cipher Code.

### Codicil

A written addition to a will; a testamentary instrument altering or supplementing an existing will. It is neither necessary or customary to have the codicil written on the same paper as the will, or attached to it, but it must be executed with the same formalities as the will itself, *e. g.*, if the laws of the state require attestation by three witnesses for the will, the codicil requires the same number. (See Will.)

### Co-Executor

One of two or more executors; a person, bank, or trust company appointed to act as executor jointly with another. (See Executor.)

### Coffee Exchange

See New York Coffee and Sugar Exchange.

### Coinage

The process of identifying, by stamping a piece of metal intended to be used as money, by a sovereign power, *i. e.*, a national government. When metal was first coined, only the obverse face was stamped with an image of the sovereign, with an indication of the weight. In the process of evolution, to prevent clipping, the reverse side was also stamped, and finally to prevent trimming

the edges, the edges were milled. The purpose of coinage is to avoid inconvenience and delay in each act of exchange. Since coinage is a governmental certification of the weight and fineness of coins, the necessity of testing the weight and fineness of metal, when used as a medium of exchange, is obviated. Good coinage involves the following requisites: easy recognition of denomination, easy identification of the issuing Government, certification of weight and fineness, difficulty of being counterfeited or altered; difficulty of being abraded. (See Abrasion, Brassage, Free Coinage, Gratuitous Coinage, Milling, Mint, Money, Seigniorage, United States Money.)

### Coining Rate

See Mint Ratio.

### Coins

First read *Coinage*.

Metallic money as distinguished from paper money; metal stamped by a governmental authority, for use as money, as distinguished from bullion, or metal in the mass. United States coins have a design, composition, weight and fineness fixed by statute and are manufactured only by the Federal government under the supervision of the Director of the *Mint* (q. v.), and may be classified as gold pieces, silver pieces, fractional or subsidiary silver coins, and minor coins. (See United States Money.)

### Collateral

Security given by a borrower to a lender as a pledge for payment of a loan. The collateral is deposited with the lender, and may be used to satisfy the claim of the lender in the event of failure of the borrower to meet the debt at maturity.

Any kind of property which has a ready and stable market can be employed as collateral, but the collateral value of different kinds of property is subject to wide variation depending upon a number of factors. The principal kinds of collateral are: real estate, bonds, stocks, notes, acceptances, certificates of deposit, passbooks, chattels (including grain and live stock), bills of lading covering readily marketable and non-perishable staples, warehouse receipts, assigned book accounts, and trust receipts. Some kinds of property are ineligible to serve as collateral because they have no ready market and their value unascertainable.

The chief factors bearing upon the value of property as collateral are: readiness and

steadiness of market, activity of market, ease of transfer of title, degree of fluctuation of market value, and character of the collateral. The collateral or hypothecary value of property is the ratio of the amount which can be borrowed to its market value. On high grade collateral, *e. g.*, Government bonds, collateral value runs to as high as 90 per cent. of market, whereas in the case of listed stocks, collateral value ranges between 75 and 80 per cent. The collateral value of real estate normally ranges between 40 and 66 2/3 per cent. National banks are not permitted to lend more than 50 per cent. upon improved real estate. Savings banks in New York State may lend 60 per cent. upon improved and 40 per cent. upon unimproved property.

Securities listed upon the New York Stock Exchange form an important class of collateral because of their extreme marketability. Brokers' loans are entirely collateralized by stock exchange securities, known as stock exchange collateral. This consists of stocks and bonds listed upon the New York Stock Exchange, although unlisted or outside market securities are sometimes accepted, provided they have a ready market, are sound in character, and do not constitute too large a part of the total collateral offered.

There are two classes of stock exchange collateral; regular or mixed, and industrial. Regular or mixed collateral consists of at least 50 per cent. railroad stocks or high grade bonds and 50 per cent. of stocks of industrial corporations. Industrial collateral consists wholly of industrial stocks. On account of the relative greater stability of quotations in all classes of bonds and railroad stocks, loans secured by regular or mixed collateral usually command a preferential rate of 1/2 per cent. less than loans secured by industrial collateral. (See Hypothecary Value, Loans, Security.)

### Collateral Heir

See Heir.

### Collateral Loan

A short-term loan for which the borrower has deposited with lender some kind of collateral security, such as bonds, stocks, warehouse receipts, etc., which may be sold to satisfy the debt, if not paid at maturity.

### Collateral Mortgage Bonds

*Collateral Trust Bonds* (q. v.), which are secured by a deposit of mortgage bonds; bonds which are in turn secured by a de-

posit of mortgage bonds, and therefore indirectly secured by a mortgage. The title has sometimes proved to be a misnomer, because the security is sometimes stocks or bonds not constituting a direct lien.

### Collateral Note

A note evidencing a loan secured by collateral, generally stocks, bonds, mortgages, or other notes. (See Note.)

### Collateral Security

Property security as distinguished from personal security. (See Collateral, Personal Security, Security.)

### Collateral Trust Bonds

Bonds secured not by real property but by a deposit in trust of securities, usually bonds and sometimes stocks. A parent company which owns bonds or stocks of its subsidiaries may use them as collateral against an issue of its own bonds. The investment value of collateral trust bonds depends upon the margin of safety, or excess value of the collateral above the collateral trust issue, range of fluctuation in the price of the collateral, protection offered by the deed of trust, and the general credit standing of the issuing corporation.

### Collection (Collecting) Agent

A bank acting as agent or correspondent located in another city with which another bank has completed arrangements for the collection of checks and other items drawn on points in the former's locality, and for the conduct of other business.

### Collection Charges

Charges made by a bank for the collection of checks, coupons, drafts, notes and acceptances, drawn upon banks, corporations, or individuals at points outside the city in which the sending bank is located. Local clearing house associations usually fix a minimum compulsory collection charge for items drawn on out-of-town points, when cashed, or deposited for credit at its member banks. This charge is made to compensate for the loss of interest upon the money while the check is in process of collection, and is based upon the amount, and time necessary to collect the item.

Federal Reserve banks, through their transit departments, collect out-of-town checks for member banks, or any bank which agrees to pay checks drawn on it at par (known as

clearing member banks), without charge. (See Federal Reserve Check Collection System.)

When out-of-town checks are collected through regularly established collection agents on a prearranged basis of reciprocity or otherwise, the charge for collection is fixed at the discretion of the collecting bank. (See Domestic Exchange, Free Items.)

### Collection Clerk

A bank clerk responsible for discharging the details in connection with the collection of checks, drafts and other items drawn on out-of-town points. Where the volume of out-of-town checks is large, a separate department known as Collection or Transit Department, is created. (See Transit Department.)

### Collection Items

Checks, drafts, notes, or acceptances deposited with a bank for credit only if and when collection and payment is made, as distinguished from *Cash Items* (q. v.), which are credited to the customer's account upon receipt, but which are subject to cancellation in case of non-payment. Most items deposited are cash items. Collection items are those where some doubt is entertained by the depositor of their eventual payment, and they are therefore accorded individual treatment, each item being given a special number, for the purpose of identification, and a separate deposit slip describing it in detail. Collection items may be divided into four classes: (1) *City Collections* (q. v.)—items drawn on banks, corporations, or individuals within the city; (2) *country collections*—items drawn on out-of-town banks, etc.; (3) *special collection items*, with special documents attached, *e. g.*, bills of lading, mortgages, stocks and bonds; and (4) *foreign collections*—items drawn on banks, etc., located in foreign countries.

### Collection Ledger

A ledger, also known as "float" ledger, constituting a part of the bookkeeping records of a bank transit department for the purpose of temporarily holding charges to various banks for checks and other items while in transit, or process of collection. Separate ledgers are provided for items forwarded for collection to Federal Reserve banks and those forwarded directly to collecting agents. The collection ledger is usually a Boston or progressive type ledger, with an extra column placed next to the



debit column so that the availability date of each posting may be indicated.

By reference to the collection ledger, it is possible to ascertain the amount of items in process of collection through the Federal Reserve check collection system and through country correspondents or collecting agents. These amounts are tied up with the general ledger through the accounts entitled, *Due from Federal Reserve bank, Collections*, and *Due from Banks, Collections*, respectively. As items are collected, the collection ledger accounts are credited and the Federal Reserve bank or country correspondent is debited.

### Collection Letter

A letter of transmittal or deposit slip accompanying a collection item, *i. e.*, one to be credited to the sender's account only if and when collected. Collection items are treated individually, given a separate collection number for identification purposes, and only one is listed on a single collection letter.

Collection letters are usually form letters and if complete, contain the following information: name of collecting agent, date forwarded for collection, name of sender (owner), sender's collection number, name of maker or drawer, where payable, maturity date if the item is a note or acceptance, whether the item is to be protested or not, amount, special instructions.

### Collection Number

The number assigned to a collection item, in the accompanying collection letter and by which it is identified in subsequent correspondence and the records. (See Collection Letter.)

### Collections

See City Collection Department, Clearing House, Collection Items, Country Collection Department, Coupon Collection Department, Federal Reserve Check Collection System, Federal Reserve Interdistrict Collection System, Messenger, Note Teller, Transit Department.

### Collection Teller

A bank teller who supervises the collection of checks and other items deposited for credit only if and when collected. (See City Collection Department, Country Collection Department, Collection Clerk, Transit Department.)

### Colon

See Foreign Moneys—Costa Rica, Salvador.

### Colonial Bills

A term which applies to bills of exchange drawn on the colonies of Great Britain, including Australia, South Africa, and the Far East. Since most Australian banks carry balances in London, these bills have a particularly good market in that center, and are always payable in sterling.

Colonies of the continental European countries settle their trade balances usually in the currency of the mother country. Bills drawn on the colonial territories of France, Holland and Germany are payable in francs, guilders, and marks, respectively, and are treated in a manner similar to that accorded British colonial items.

### Combination

An association of individuals or corporations for the furtherance of some project. (See Pool, Trust.)

### Commercial Agencies

See Mercantile Agencies.

### Commercial Agency Reference Books

See Mercantile Agencies.

### Commercial Agency Reports

See Mercantile Agencies.

### Commercial Bank

A name given to one of the six classes of banking institutions under *Bank* (q. v.). Commercial banks are designed primarily to finance the production, distribution, and sale of goods, *i. e.*, to lend short-term funds, as distinguished from the service of lending long-term or capital funds. The bulk of deposits of commercial banks consists of demand deposits which are invested in short-term loans having maturity ranging usually from three to six months. National and state banks are the best examples of commercial banks, although in most states trust companies are also permitted to engage in commercial banking. Private banks are usually commercial banks.

### Commercial Bar

See Assay Bar, Export Bar.

### Commercial Bills

Bills of exchange arising out of commercial transactions as distinguished from clean bankers' bills, travelers' letters of credit, travelers' checks, remittance drafts, finance bills, etc. (See Foreign Bills of Exchange.)

### Commercial Borrowers

Merchants (wholesalers and retailers) who borrow on short-term notes largely to finance inventories, or who realize on notes and accounts receivable by discounting them.

### Commercial Credit

(1) A term used to indicate credit furnished to manufacturers, wholesalers, jobbers, and retailers—those engaged in the manufacture and distribution of commodities. Commercial credit is distinguished from personal, banking, public, agricultural, and investment credit. (See Credit.)

(2) A transaction involving the use of a commercial letter of credit. (See Letters of Credit).

### Commercial Credit Companies

Concerns also sometimes known as credit or finance companies, engaged in the business of lending on open, or book accounts as collateral. The note of a commercial credit company is not eligible for re-discount at a Federal Reserve bank, even though secured by eligible paper itself. (See Assigned Book Accounts.)

### Commercial Discounts

This term has two meanings:

(1) Notes given to lending banks by mercantile firms upon which interest is paid in advance.

(2) Cash discounts offered by a seller to a purchaser to encourage the payment of invoices in advance of the maturity allowed by the terms of credit. (See Cash Discount.)

### Commercial Failures

See Failures.

### Commercial Letter of Credit

See Letters of Credit.

### Commercial Loans

See Loans.

### Commercial Paper

All classes of short term negotiable instruments (notes, bills, and acceptances) that arise out of commercial, as distinguished from speculative, investment, real estate, personal or public transactions; short-term notes, bills of exchange, and acceptances arising out of industrial, agricultural, or commercial transactions, the essential qualities of which are early (three to six months) maturity, automatic or self-liquidating power, and soundness in origin and purpose of use. According to the Federal Reserve Board "this class of paper should represent in every case some distinct step or stage in the productive or distributive process—the progression of goods from producer to consumer."

A definition given by a well known banker in the formative years of the Federal Reserve System is as follows:

*"Commercial paper consists of promissory notes, bills of exchange, or acceptances in negotiable form representing advances to be used in the production, manufacture, distribution, or storage of commodities for which there is a constant, periodic, or seasonal demand by consumers, merchants, or manufacturers, so that in the natural course of events the satisfying of this demand within a reasonable lapse of time from date of issuance of the paper will result in the payment of the notes, bills of exchange, or acceptances thus created. For illustration, under this definition, the financing of bricks in the process of manufacture would be proper, but the financing of a building in which these bricks are used as construction would not."*

In a narrower sense, commercial paper consists of notes, etc., maturing in less than one year which are the direct obligations of issuing mercantile or industrial corporations or co-partnerships, and are sold through the medium of note brokers, principally to banks in the larger financial centers, and to a smaller extent to insurance companies and business corporations. Commercial paper denominations range from \$2,500 as a minimum to \$50,000 or more as a maximum. In order to obtain the widest investment field the most frequent units range between \$2,500 and \$10,000, \$5,000 being the most customary denomination and six months the most customary maturity. Rates vary according to the credit standing of the issuer and money market conditions.

Commercial paper borrowing is for the purpose of buying or carrying stocks of merchandise to be quickly resold, and may be regarded as a convenient method of financing inventory purchases at the seasonal peak. Four classes of commercial paper usually appear in the open market, *viz.*: (1) unsecured single name, which accounts for about 75 per cent. of the total; (2) double name, including trade paper, *i. e.*, promissory notes given in settlement for goods purchased and indorsed by the seller, and non-trade paper bearing indorsement, amounting to about 20 per cent. of the total; and (3) collateral notes representing about 5 per cent. of the total.

The advantages of issuing commercial paper from the standpoint of the borrower are five-fold:

(1) To obtain cash with which to take advantage of cash discounts offered by trade creditors. Credit terms differ among various trades but almost without exception cash discounts are offered where payment is made in advance of the term allowed. In the wholesale grocery trade, for instance, it is customary to allow 2 per cent. for payment within ten days, or net 30 days. In some trades a better discount may be allowed for spot cash. At any rate, discounts and anticipations frequently range from 12 per cent. to 18 per cent. a year. When money can be borrowed for 6 per cent. and 18 per cent. can be gained by taking advantage of cash discounts, a net profit at the rate of 12 per cent. is made upon capital invested in merchandise. Cash discounts should therefore always be taken, since money seldom performs a greater earning service.

(2) To establish national credit. Many enterprises which issue commercial paper are nationally known organizations that have created a national market for their product through widespread advertising campaigns. In such cases, the issuing of commercial paper may be an expedient for establishing a national credit reputation.

(3) To keep a reserve of borrowing power at local banks. Local banking connections may not be able (on account of lack of capital) to supply adequate funds, or if able to supply funds perhaps not at as favorable rates as can be secured through the issue of commercial paper. Local money market may be tight, whereas in other sections conditions may be relatively easy. By issuing commercial paper a concern may keep its borrowing power in the local market in reserve for an emergency, and meanwhile can test out various other markets where its com-

mercial paper may be sold at the cheapest rates. Unexhausted bank "lines" should always be sufficient, however, to cover commercial paper borrowings.

(4) To borrow at cheaper rates than is possible at home.

(5) To establish a broader market for the paper than is possible at home. Commercial paper may be sold anywhere, the function of commercial paper houses and note brokers being to find the most advantageous markets.

The advantages of commercial paper from the standpoint of buyers are four-fold:

(1) The risk is relatively slight. Note brokers who distribute commercial paper maintain extensive credit files and paper which they buy is subjected to rigid examination. Note brokers could not long continue in business if commercial paper borrowers from whom they have made purchases, could not meet their maturities. Commercial paper purchases, therefore, are arranged only with concerns which have a firmly established earning power, current assets sufficient to justify the aggregate of borrowing, a reasonably high *Current Ratio* (q. v.), and a favorable reputation as to personnel, management, and quality of product.

(2) There is no moral obligation to renew commercial paper, *i. e.*, insistence on payment at maturity, and refusal to make new loans does not subject the lending bank to the danger of loss of any business advantage. This differs from loans made to a bank's customers which oftentimes must be renewed, where there is no justification for it except as a protection to the bank or as a favor to the borrower.

(3) Commercial paper furnishes a good investment medium when the demand for funds is slight from other sources. Many banks, corporations, and individuals invest in commercial paper because of its soundness and quick convertibility.

(4) Commercial paper often returns a better rate than loans to customers.

The alleged disadvantages of commercial paper purchases are that they are usually single-name paper which does not evidence on its face the purpose for which the proceeds will be used. These disadvantages are more apparent than real wherever the reliability and financial responsibility of the maker are first class.

Commercial paper is usually purchased on an option running from 10 to 20 days. Within this option period the prospective buyer retains the right to return any notes that he regards as undesirable, the purpose of the



option period being to give the buyer the opportunity of ascertaining the credit responsibility of the maker. (See Limitations on Bank Loans, Note Brokers.)

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### Commercial Paper House

See Note Brokers.

### Commercial Paper Names

A term used among bank credit men in referring to corporations and partnerships which habitually borrow through the open market by issuing commercial paper. (See Commercial Paper.)

### Commercial Parities

See Foreign Exchange.

### Commission

The charge made by banks or brokers for various services rendered customers. Commissions are charged by broker members of the various exchanges for buying and selling securities, commodities, etc. Commission schedules for executing orders on the various exchanges are given under titles, as follows: New York Stock Exchange, New York Curb Market, New York Consolidated Stock Exchange, New York Cotton Exchange, New York Coffee and Sugar Exchange, and Chicago Board of Trade.

Banks charge a commission for acting as custodian, fiscal agent, registrar, stock transfer agent, various trust services, issuing letters of credit, accepting drafts drawn under letters of credit, etc.

Note brokers charge a commission for selling commercial paper and money brokers for placing time loans.

### Commissioner of Banking

See State Banking Department.

### Commission House

A brokerage concern a member or members of which are also members of a stock or other exchange and which executes orders to buy and sell on such exchange or exchanges, as distinguished from exchange members who trade only for their own accounts.

### Commissions, Schedule of

See Commission.

### Commitment

A pledge or engagement; a contract involving financial responsibility or a contingent financial obligation to be performed in the future, *e. g.*, an obligation to pay for subscribed stock on call, to take up bonds subscribed or purchased on the delivery date, or orders entrusted to a broker for buying and selling securities.

### Committee in Lunacy

A person appointed by a court, usually upon the initiative of relatives, to administer the affairs and protect the estate of a person adjudged to be a lunatic. The term is synonymous with *Conservator* (*q. v.*), the terminology used varying among the states.

### Commodity Paper

As defined by the Federal Reserve Board (Regulation A, Series of 1917) commodity paper is a "note, draft, bill of exchange, or trade acceptance accompanied and secured by shipping documents or by a warehouse terminal, or other similar receipt, covering approved and readily marketable, non-perishable staples properly insured.

"To be eligible for re-discount at the special rates authorized to be established for commodity paper, such a note, draft, bill of exchange, or trade acceptance must always comply with the respective sections of this regulation applicable to it, must conform to the requirements of the Federal Reserve bank relating to shipping documents, receipts, insurance, etc., and must be a note, draft, bill of exchange, or trade acceptance on which the rate of interest or discount—including commission—charged the maker does not exceed 6 per cent. per annum.

"As a special rate on commodity paper is intended to assist actual purchasers during crop moving periods, and is not designed to benefit speculators, the Board reserves the right to suspend the special rates herein provided whenever it is apparent that the move-

ment of the crops which this rate is intended to facilitate, has been practically completed."

### Commodity Rate

The rate of interest charged upon commodity paper. (See Commodity Paper.)

### Common Carrier

A company authorized to undertake transportation as a regular business, *e. g.*, railroads, steamship companies, express companies, traction lines, etc. Common carriers are subject to the basic law of public callings and as such must (1) furnish services to all who apply; (2) provide adequate facilities for all; (3) charge reasonable rates; and (4) charge equal (non-discriminatory) rates. This law is also applicable to all public service corporations.

### Common Stock

That part of the capital stock of a corporation which represents the last claim upon assets and dividends, as distinguished from *Preferred Stock* (q. v.). Dividends upon common stock may not be paid until interest upon all bonds, floating indebtedness, and dividends on preferred stock issues, have been met. Common stockholders bear the greatest risk, but usually have the greatest control, and are entitled to the largest profits, if earned, since dividends are contingent upon earnings.

The value of common stock usually is subject to wide fluctuations, due to variations in earnings. Common stock must therefore be classified as a speculation rather than an investment. For the tests of soundness of stocks, see *Industrial Stocks*.

In England shares of common stock are known as ordinary shares. (See *Capital Stock*, *Stock*, *Stock Certificate*.)

### Community Trust

A form of charitable trust under which gifts and money bequests are received to be applied for public purposes and administered by a bank or trust company in conjunction with an advisory board of citizens. The community trust plan was first developed in Cleveland, Ohio, in 1914. This city which is said "to know itself better than any other American city," had a fund of nearly a hundred million dollars in 1922. Since 1914 more than forty community trusts have been organized throughout the country.

The purpose of a community trust is to prevent the misuse or inoperation of absurd

bequests for philanthropies which have become obsolete, as for example, a fund left in 1626 by Henry Smith in England, providing for the redemption of captives from pirates. In other words, the community trust plan is an attempt to mitigate the evil of "the dead hand" by making property dedicated to a charitable purpose available for commuted uses, when once the original purpose designated by the donor becomes obsolete, inoperative or harmful.

*"The community trust plan is a recognition of two fundamental facts: first, the element of certain and constant change which is taking place in our social structure and in our view point with respect to charity; and second, that the charitable problems of each generation can better be solved by the best minds of these generations than through the medium of the dead hand of the past. History proves that permanently to endow an individual or an institution is a questionable and sometimes a dangerous act."*

*"Under the community plan a donor of any sum of money may be sure of the handling of the fund by impartial persons chosen for their knowledge of the needs of the times. The principal elements in a community trust are the banks and trust companies which act as trustees for the conservation of the charitable gift and for its investment and reinvestment, a public committee of distribution consisting of eleven people chosen for their knowledge of charitable needs, and a director who under the direction of the committee of distribution and the trustees has charge of the current and active affairs of the trust. While the committee of distribution does not have the actual handling of the income, it controls and directs its distribution."*

*"The principal difference between private foundation or trusts and the community trust lies in the fact that private foundations represent usually the benefactions of a single individual and have a self-appointed and self-perpetuating committee of distribution."\**

The New York Community Trust was created in February, 1920, for the following purposes:

(1) The creation and development of a better community spirit and the carrying out of community purposes not otherwise possible; (2) the preservation of the principal and the proper investment and reinvestment of the funds bequeathed by charitable donors through the security of the institutions acting as trustees; (3) the ability of the trust,

\*From address by Frank J. Parsons, Director of the New York Community Trust, May, 1922.

through its broad powers, without unreasonable delay and expense, to divert to live charities, funds left to an originally worthy, but later obsolete philanthropy; (4) the opportunity for men of small means, with no direct descendants, to make contributions to a common community fund; (5) the opportunity for men of large means, after having cared for their own, to provide that a portion of their wealth, or the residuum of their estates after the death of individual beneficiaries, shall remain intact, the income to be used for community purposes.

The committee of distribution of the New York Community Trust consists of eleven members, five of whom are selected by the trustees and six of whom are appointed by incumbents of the following offices: The President of the Chamber of Commerce of the State of New York, the President of the New York Academy of Medicine, the President of the Association of the Bar of the city of New York, the Mayor of the City of New York, the President of the Board of Trustees of the Brooklyn Institute of Arts and Sciences, the Senior Circuit Judge of the United States Circuit Court of Appeals for the Second Circuit. (See Trusts.)

### Company

See Controlling Company, Corporation, Holding Company, Investment Company, Joint-Stock Company, Operating Company, Parent Company, Trust Company.

### Comparative Statements

Financial and income statements for consecutive years used as a basis for noting the progress or regress of a business applying for credit. (See Statement Analysis.)

### Comparisons

A periodic, reciprocal statement of purchases and sales occurring between brokers, or between brokers and bankers for collaterals held by a bank against brokers' loans, in order to determine the accuracy of the records of each. Brokerage comparisons are made daily by means of slips exchanged between the transacting brokers. Brokerage comparisons with banks are customarily made monthly by means of a reciprocal statement of collaterals held against a loan.

### Comparison Slip

See Comparisons.

### Compensated Dollar

See Stabilized Dollar.

### Compensation

Payment for services or goods.

### Compound Arbitration of Exchange

See Arbitration of Exchange.

### Compound Interest

See Interest.

### Comptroller

The officer of a bank who supervises the bookkeeping, accounting, auditing, and reporting procedure, and who is responsible for initiating improvements in the accounting and auditing methods. All reports, internal statistics, and data concerning the financial condition should be prepared or approved by him; and to be most effective he should report directly to the president or chairman of the board of directors. He should also be responsible for controlling all financial records and for providing a system of internal check that will guard against inaccuracies and fraud.

The comptroller must have a thorough knowledge of bank organization and operations, banking principles and law, as well as a knowledge of accounting and auditing technique. (See Comptroller of the Currency, Comptroller's Call.)

### Comptroller of the Currency

An office created by the National Bank Act, the function of which is to authorize the establishment of, and to supervise and control National banks and national currency secured by United States bonds. Applications to organize all National banks are made to the Comptroller of the Currency and all National bank examinations are supervised from his office. National banks are required to make at least five annual reports to the Comptroller of the Currency and to submit to two regular examinations by the National bank examiners each year. The Comptroller of the Currency is under the general direction of the Secretary of the Treasury. (See Comptroller's Call.)

### Comptroller's Call

The Comptroller of the Currency is required by law to call for a statement of condition of each National bank, at least five times a year. Calls are made at irregular intervals so that the reporting banks will not know the exact date the statement must be furnished. Statements of condition must be forwarded to the Comptroller within five



days after receipt of the notice, otherwise a penalty of \$100 for each day the report is delayed, is exacted. Before the comptroller's call is announced, a preliminary letter which encloses blank reports and publishers' certificates for use at the time of the ensuing call, is forwarded to each National bank. The complete statement of condition is required to be published in a local newspaper after each call.

A second form of report is submitted to the Comptroller of the Currency at each dividend date. This report shows net earnings for the period, amount of dividends declared, and net earnings remaining subject to reduction by losses and taxes, before transferable to undivided profits.

In addition to regular reports, the Comptroller of the Currency may require special reports, *e. g.*, a statement showing distribution of loans by states and reserve cities, deposits by states and reserve cities, loans outstanding to brokers, etc.

The correctness of statements furnished the Comptroller must be attested by the President or Cashier and by three directors. It is also sworn to before a notary public.

### Concession

This term has three meanings:

(1) A shading or decrease in the market price of securities.

(2) A reduction in the price of a security offered to a bank or investment house which retails securities by a syndicate wholesaling securities, from the public offering price. The concession below the public offering price represents the profit to the investment dealer.

(3) The right granted to a lessee to use property of the lessor for certain purposes for a stipulated period. More broadly, any grant or lease of a property privilege made by a government for political or economic advantage to a foreign corporation or association to enable it to exploit mineral resources, to build canals or railroads, etc.

### Conditional Indorsement

See Indorsement.

### Confidence Men

Professional swindlers. (See Bunco, Swindling.)

### Confirmation

An order or agreement in writing to verify or confirm one previously given verbally, or

by telephone or telegraph. Executions of orders to buy or sell securities are confirmed in writing by brokers to their customers.

### Confirmed Credit

A letter of credit which cannot be cancelled or modified without the consent of both buyer and seller. (See Letters of Credit.)

### Conservator

The name given in some states to a person appointed by a court to manage the estate of an incompetent or lunatic in much the same way as a guardian administers the affairs of a ward. The conservator is charged with preserving the property and keeping it on a conservative income basis and is required to make frequent statements to the court. The death of the lunatic terminates the conservatorship.

### Consignee

One to whom merchandise is forwarded or shipped. In freight shipments the consignee is notified by an arrival notice from the transportation company. In parcels post and express shipments, delivery is made directly to the consignee.

### Consignment

In a general sense a shipment of goods from the consignor to consignee whether the consignor is owner or merely acts as agent in their sale. In a narrower sense a shipment of goods to a commission merchant who acts as agent for the owner or for the owner and consignor, for the purpose of immediate sale according to the consignor's instructions and for his account. (See Account Sales.)

### Consignor

A shipper or sender; one who ships merchandise. The consignor takes a bill of lading, express or parcels post receipt, as evidence of his shipment.

### Consolidated Annuities

Same as *Consols* (q. v.).

### Consolidated Bonds

See Consolidated Mortgage Bonds.

### Consolidated First Mortgage Bonds

Bonds secured by a first mortgage on consolidated property; sometimes a misnomer for consolidated *Mortgage Bonds* (q. v.).

### Consolidated Mortgage

A mortgage upon an entire unit of real property formed by the consolidation of several smaller parcels. A consolidated mortgage is not necessarily a first mortgage. It may be a first mortgage on some of the parcels entering into the consolidated property and a second or even third mortgage upon other parcels.

### Consolidated Mortgage Bonds

Bonds secured by a consolidated mortgage. These bonds are frequent among railroad securities, and are distinguished from divisional bonds in that the latter are secured by separate railroad properties. Consolidated mortgage bonds are similar to general mortgage bonds, and are secured by a first mortgage upon a part, and a second or other mortgage upon other parts of the company's property.

### Consolidated Stock Exchange

See New York Consolidated Stock Exchange.

### Consolidation of Banks

The National Bank Act permits the consolidation of two or more National banks within the same county, city, town, or village, with the approval of the Comptroller of the Currency. Such a consolidation rests upon the terms which may be agreed upon by the majority of directors of each of the banks joining the consolidation, provided such agreement is ratified by shareholders representing two-thirds of the capital stock of each of the banks. Such a consolidation precludes the maintenance of more than one banking establishment. (See Branch Banking.)

### Consols

A market name for the chief pre-war British Government bonds which comprised before the World War the greatest part of the British national debt, amounting in 1914 to about \$3,443,799,000.

The term is derived as a contraction of consolidated annuities and consolidated stock (Government bonds commonly being known as stock in England and the Continent). Three different British Government loans were consolidated in 1757 into one fund and were called the 3 per cent. consolidated annuities or Consols for short. In 1888 the rate was changed to  $2\frac{3}{4}$  per cent., and to  $2\frac{1}{2}$  per cent. in 1903, which rate, payable quar-

terly, they now bear. They are redeemable at the option of the Government in 1923, or thereafter.

Consols represent the premier investment of England, just as the Government bonds of this country are the highest grade investments here. Their price is regarded as one of the chief barometers of British public credit. On account of their low interest rate, they have suffered considerable depreciation since the war. Most of the consols are in registered form, although bearer bonds with coupons are obtainable.

The 2 per cent. bonds of the United States, redeemable at the pleasure of the Government after 1930, are also known as consols. (See United States Bonds.)

### Constructive Side of the Market

An expression used to denote the position taken by those who believe that business and financial conditions warrant an advance in security values and who therefore purchase securities to hold for higher prices. The "bull" side of the market.

### Consular Invoice

A document usually certified in triplicate at the shipping point by a consul of the country of the destination of the shipment and forwarded by such consul to the customs officials of the port of destination. The consular invoice contains the information usually given in a seller's invoice—quantity and value—and its purpose, when required, is to inform the customs officials of the port of entry the nature of the imports expected so that they can be verified and possible fraud prevented. Imports cannot be released from the port of entry until the consular invoice has arrived unless the importer executes a bond of indemnity.

On the following page will be found a form of consular invoice.

### Contango

See Backwardation.

### Contango Day

The first day of the fortnightly settlement on the London Stock Exchange.

### Continental Bills

Bills of exchange drawn on banks located in European countries other than Great Britain.

**Continental Currency**

The currency of European countries other than Great Britain.

**Continental Rates**

Rates quoted for currencies and bills of exchange drawn on banks located in European countries other than Great Britain.

two main groups. The first group comprises definite and tangible liabilities discoverable through the accounts and records of a business. The second group are less tangible, such as conditions in the trade, likelihood of a falling market, possibility of cancellation of contracts, return of goods sent on approval or consignment, possibility of super-session of merchandise or of its quality

CONSULAR INVOICE

The undersigned ..... for  
 (Owner or Agent)  
 .....declare  
 (Name and address of owner or shipper)  
 that the following mentioned goods

Number of Boxes or Cases.	Marks	Numbers	Value	Description
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

and shipped on the S. S. ....  
 (Name of Ship)  
 ..... consigned to .....  
 (Date) (Name and address of Consignee)  
 are the product of the United States of America and that the value above given is correct.  
 Dated at New York on the .....  
 (Date)

.....  
 (Signature of Owner or Agent)  
 Sworn to before me this .....  
 ..... day of .....  
 .....  
 (Signature of Consul)

**Contingent Fund**

A fund set aside for contingencies, *e. g.*, special or unforeseen losses. In the New York State Savings Bank law this term was formerly employed for the present term *Guaranty Fund* (q. v.). Its function is to operate as reserve against losses and to provide for expenses after undivided profits are exhausted.

**Contingent Liabilities**

Potential liabilities; liabilities for which a business may be held, but which it never expected to be compelled to meet; liabilities which depend upon the fulfillment or lack of fulfillment of certain conditions; secondary liabilities.

Contingent liabilities may be classified in

through superior inventions or advances in industrial technology, or of possible costly litigation in protection against infringement of patents.

The first main group may be again divided into three sub-classifications:

- (1) Those of a financial nature such as are usually incurred in the sale, transfer, indorsement, or guarantee of negotiable instruments, or other financial obligations. Contingent liabilities of this nature arise as a result of: (a) discount, sale, or transfer of notes receivable, trade acceptances, bank acceptances arising under commercial letters of credit, domestic and foreign drafts; (b) indorsements of notes for affiliated or subsidiary concerns; (c) indorsement of commercial paper as accommodation party; (d) selling, pledging, or assigning of accounts



receivable where the transfer attaches a contingent liability to the seller, pledger, or assignor; (e) issuing and guaranteeing letters of credit; (f) guaranteeing of payment of interest on principal of the bonds of another party; (g) accepting suretyships, including those guaranteed for others; (h) contracts for purchase of foreign exchange for future delivery; (i) liability for unpaid stock subscriptions; (j) advances against accounts or bills receivable; (k) taking up leases.

(2) Liabilities incurred as a result of agreements on contracts concerning the purchase or sale of merchandise or services. This subclassification includes liabilities arising as the result of: (a) guarantees of satisfactory performance of services or of merchandise; (b) contracts for future delivery of merchandise or plant construction, etc.; (c) guaranteed merchandise orders not subject to cancellation (including those guaranteed for affiliated or subsidiary concerns); (d) provisions for returned merchandise, rebates, trade discounts, etc.; (e) provisions for allowances for returned containers, etc.

(3) Responsibilities incurred in various manners other than by expressed agreement or contract, such as those arising as result of (a) pending lawsuits; (b) possibility of litigation, such as alleged infringement of patents, etc.; (c) pending judgments where suit has been taken on appeal to a higher court.

The second main group is impossible of further subclassification.

The credit men in the banking and mercantile world recognize that financial statements must completely set forth the contingent liabilities in order to serve as an adequate instrument upon which to judge a credit risk.

### Continued Bonds

Bonds which are not required to be repaid at maturity but which the owners may hold for a further definite or indefinite period with the same security, and with the same or different interest rate. They are sometimes known as *Extended Bonds* (q. v.).

### Continuing Account

An open or running book account in which settlements are made at regular intervals, *e. g.*, 30 to 60 days.

### Continuing Agreement

See General Loan and Collateral Agreement.

### Continuing Guaranty

See Guaranty.

### Contract

An agreement between two or more persons enforceable at law and by which rights are acquired by one or more parties to certain acts or forbearance from acts on the part of others. A contract may be written, oral, or implied, but a written contract cannot be changed or contradicted by oral evidence.

The legal elements necessary to make a contract binding are: (1) offer and acceptance; (2) evidence of the intention of the parties to the contract to carry it out, which is usually furnished by a consideration; (3) capacity of the engaging parties to contract; (4) legality of purpose; and (5) reality of consent.

A contract may be a formal document under seal, *e. g.*, a deed or bond; an informal document in writing but not under seal, *e. g.*, a note or check; or it may be made by word or mouth.

### Contract Grades

See Grades.

### Controlling Company

See Holding Company, Parent Company.

### Controlling Interest

A person or group of persons who own a sufficient percentage of the common stock of a corporation to control its policy through their majority voting power. Ownership of 51 per cent. of the stock is sufficient for this purpose. Very often a group owning a much smaller percentage of the stock can secure the controlling interest by procuring proxies of scattered shares.

### Conversion

This term has three meanings:

(1) When the nominal value of a stock is changed, as for instance, a \$100 share into four \$25 shares, the shares are said to be converted four for one. Common shares are frequently given a lower par value in order to secure a wider distribution.

(2) Bonds and stocks are both sometimes issued with conversion privileges.

(3) The wrongful sale of stock held as margin for a trading account by a broker without the consent of the owner-trader. (See Convertible Bonds, Convertible Preferred Stock.)

### Convertible Bonds

Bonds which at the option of the holder are convertible into other securities of the corporation. Such bonds are usually convertible at a certain price into preferred or common stock, and if the value of the stock into which they are converted subsequently should exceed the value of the bonds at the conversion price, the owner will exercise his option of converting. When bonds are convertible into stock, the stock into which they are convertible must be authorized at the time the bonds are issued. Convertible bonds have a speculative feature, and tend to fluctuate in price in accordance with the movement of the stock into which they are convertible.

The advantage of convertible bonds to the issuing corporation is the increased chance of creating a large market for their sale. A corporation is not always able to raise additional capital to advantage by the issue of stock and its bonds could be sold only at a high interest rate. To the investor, convertible bonds combine both safety of principal and possibility of enhancement in value through the conversion privilege. If the owner elects to convert, the fixed charges of the corporation are to that extent reduced.

### Convertible Paper Money

Paper money, which according to its terms, may be redeemed at par in gold, or lawful money. Convertible paper money is distinguished from *Inconvertible Paper Money* (q. v.). The latter is no longer issued by the leading commercial nations. All forms of United States paper money are convertible. (See Paper Money.)

### Convertible Preferred Stock

Preferred stock which the holder may exchange at his option for common stock at the stipulated conversion price. Usually the option cannot be exercised immediately, but only after a certain date, or in accordance with certain conditions. Convertible preferred stock may be exchanged par for par, or in other proportions as prescribed. This type of stock is attractive because it combines stability with possible enhancement of value through larger earnings. In case of large earnings the stockholder may derive a larger income by converting into common stock, but at the expense of greater risk. (See Preferred Stock.)

### Conveyance

A general legal term to denote an assignment, lease, settlement or covenant to surren-

der made by a deed, mortgage or sale. In general usage, however, the term denotes the deed by which real estate is conveyed from the seller to the buyer.

### Conveyancing

The science and act of transferring title to real estate from one person to another. Conveyancing is that part of an attorney's business which relates to the alienation and transmission of property and other rights from one person to another and to the formulation of legal documents intended to create, define, transfer, or extinguish rights. It therefore includes the searching of titles to real estate, and the preparation of agreements, wills, articles of association, etc.

### Co-operative Agencies for Credit Information

There are in the United States a large number of associations which reciprocate credit information through the credit departments of their various members. Practically every trade and manufacturing association maintains a credit organization for the purpose of determining the credit standing of dealers in the trade with the view to prevent credit losses through granting credit to buyers who are financially irresponsible. Not only do various trades maintain credit organizations, but many banks in the larger cities, Chambers of Commerce and Credit Men's Associations throughout the country have established co-operative credit exchanges where information is available to members and affiliations. (See Credit Information Sources, Mercantile Agencies.)

### Copeck

Another spelling for *Kopeck* (q. v.).

### Copper

A metal extensively used in many industries, and notably in the electrical industries. Quotations for copper are given for three classes, standard, lake, and electrolytic. The latter is copper refined by the electrolytic process, a commercial process employed in about ten refineries in the United States and is profitable only when the crude copper treated is about 96 or 97 per cent. pure. Electrolytic copper assays about 99.9 per cent. pure, and commands a somewhat higher market price than standard copper. The 75-year range in copper prices is from 11 to 40 cents per pound.

The United States produces about 60 per cent. of the world's supply of copper, a large quantity of which is exported. Copper production has rapidly increased in recent years. The following table shows the production of copper in the United States in long tons and the highest and lowest price for selected years since 1850:

Year*	Long Tons	Highest Price Cents	Lowest Price Cents
1850	650		
1860	7,200	24.0	19.7
1870	12,600	23.3	19.0
1880	27,000	25.0	17.8
1890	115,966	17.2	14.0
1900	270,588	17.2	16.0
1910	482,214	13.8	12.5
1911	489,836	14.3	12.2
1912	555,031	17.8	14.2
1913	546,645	17.8	14.5
1914	513,454	15.5	11.3
1915	619,647	23.0	13.0
1916	860,648	35.0	23.0
1917	842,018	25.3	23.5
1918	852,024	26.0	26.0
1919	574,294	23.0	23.0
1920	539,759	20.5	13.8
1921	225,708	14.0	12.0
1922	†400,455	15.1	12.8

(See Coppers.)

**Copper a Tip**

An expression to indicate that one acts contrary to the advice or information received in a tip. (See Tip.)

**Coppers**

This term has two meanings:

(1) A nickname for United States one-cent pieces. (See Bronze Coins.)

(2) An expression used to designate the copper stocks. Copper stocks are divided into four classes, depending upon the type of mine from which the copper is taken; the Lake Group (Lake Superior), the Butte Group (Butte, Montana), the Porphyry Group, copper mines extracting ore with a small copper content, and the Miscellaneous Group. (See Porphyry.)

**Cordova**

See Foreign Moneys—Nicaragua.

**Corn**

The most valuable crop in the United States, normally about twice that of wheat,

and 50 per cent. greater than that of cotton. In 1920 only 0.59 per cent. of the crop was exported, which is accounted for by the fact that corn is chiefly used on the farms for fattening meat animals. The principal corn growing states in order of production in 1920 were, Iowa, Illinois, Nebraska, Missouri, Indiana, Texas, Ohio and Kansas.

The principal market for corn is in Chicago where, on the Board of Trade, one pit is exclusively devoted to trading in corn, both for cash and future delivery. The unit of trade is 5,000 bushels for which the broker is entitled to a commission of \$7.50.

The following table shows the production of corn in the United States:

Year*	Production Bushels	Farm value per bushel Dec. 1st
1891-1895†	1,734,403,753	36.6c
1896-1900†	2,058,854,841	28.4
1901	1,522,519,891	60.5
1902	2,523,648,312	40.3
1903	2,244,176,925	42.5
1904	2,467,480,934	44.1
1905	2,707,993,540	41.2
1906	2,927,416,091	39.9
1907	2,592,320,000	51.6
1908	2,668,651,000	60.6
1909	2,772,376,000	59.6
1910	2,886,260,000	48.0
1911	2,531,488,000	61.8
1912	3,124,746,000	48.7
1913	2,446,988,000	69.1
1914	2,672,804,000	61.4
1915	2,994,793,000	57.5
1916	2,566,927,000	88.9
1917	3,065,233,000	127.9
1918	2,502,665,000	136.5
1919	2,858,509,000	134.7
1920	3,232,367,000	67.7
1921	3,068,569,000	46.7
1922	2,890,712,000	72.7
10 year average	2,849,326,000	.....

(See Grades, Grain.)

**Corner**

"Control or monopoly over a commodity or security to get control of or to dictate prices." Technically, a corner occurs on a stock exchange when "shorts" cannot borrow stock, *i. e.*, have sold more stock than the floating supply makes available for purchase. Those who have a corner can dominate the situation and dictate price terms to their unfortunate victims, the "shorts" who are

\* Abstract of the Census.  
† Estimated.

\* Department of Agricultural Reports.  
† Average for period.



forced to settle at artificially dictated prices, thereby involving heavy losses. The two most recent corners in stocks were the Northern Pacific corner (1901) and the Stutz corner (1920).

Corners have been more frequent in grain than in stock speculation and in most cases have proved disastrous for their promoters. The three great corners on the Chicago Board of Trade are known as the Hutchinson Corner (1888), the Leiter Corner (1898), and the Patten Corner (1909).

A corner has been declared to be illegal by the courts for two reasons: (1) it is a gambling transaction and contracts thereunder are therefore unenforceable; and (2) it is in restraint of trade.

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#### Corn Pit

See Pit.

#### Corporate Trusts

See Trusts.

#### Corporation

The principal form of modern business organization, as distinguished from the *Partnership* (q. v.), and sole proprietorship. It is defined by a court of law as "an artificial person being created by law and composed of individuals with the capacity of perpetual succession and of acting within the scope of its charter as a natural person." (*Fietsam v. Hay*, 122 Ill. 293). "An artificial being, invisible, intangible and existing only in contemplation of law." (John Marshall). "An association of individuals authorized by law to act as a whole under a corporate name and for some particular purpose or purposes. The word 'company' is used synonymously with 'corporation' with reference to business organizations."\*

The New York statutes recognize three classes of corporations, (1) municipal, including towns, counties, cities, and other territorial divisions of the state with powers of local government; (2) stock, business corporations, mercantile, industrial, public utility, railroads, and financial, conducted for profit; and (3) non-stock or mutual, corporations not conducted for profit, *e. g.*, ex-

changes, boards of trade, mutual benefit associations, cemeteries, etc.

To form a corporation, the general corporation laws usually require that three or more incorporators apply for a charter, which upon payment of the proper fees, is issued by the Secretary of State of the state of incorporation. (See Certificate of Incorporation.) A corporation has power to conduct the business authorized by its charter, to make contracts, and to sue and be sued. It is an entity distinct from its constituent stockholders, who may sue the corporation. A corporation is owned by its stockholders, but the active management is vested in the directors, elected by the stockholders and subject to the provision of its by-laws. The directors in turn elect the officers, whose duties are usually outlined in the by-laws.

The advantages of the corporate form of organization are continuous life, large capitalization with which to secure economical operation, limited liability, continuity of business policy, divisibility of capital, and transferability of shares. The disadvantages are greater taxation, compulsion to submit to greater publicity, limitation of powers, and limitation of credit through limited liability.

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Also see bibliography under *Corporation Finance*.

#### Corporation Bonds

One of the two classes of bonds divided according to type of obligor, *i. e.*, civil bonds and corporation bonds. Corporation bonds are obligations of a business corporation as distinguished from obligations of a governmentality (Federal, state, or municipal government.)

The soundness of corporation bonds depends upon many factors including the character of collateral offered, the character of the issuer, the nature of the industry, and stability of its earnings. The market value

\* R. J. Bennett: *Corporation Accounting*, p. 1.

of corporation bonds, except that of the highest grades, is influenced by changes in business conditions, as well as by interest rates, while civil bonds are influenced only by the latter factor. (See Bond, Industrial Bonds, Investment, Public Utility Bonds, Railroad Bonds.)

### Corporation Finance

That division of finance which treats of the promotion, organization, capitalization, financing, reorganization, and financial conduct of business corporations. It deals, "first, with the raising of the initial capital needed for business enterprises, what securities to issue, how and to whom they should be sold, how best to utilize the funds thus secured, together with their proper apportionment for plant, equipment, and working capital; second, with the accurate determination of profits and their allocation to dividends, surplus, sinking fund and reserves, and the enlargement of capital permanently invested." (W. H. Lough, *Business Finance*, p. 1.)

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### Corporation Paper

Notes, acceptances, and bills of exchange issued by corporations, as distinguished from paper issued by individuals and copartnerships.

### Correspondent

A bank having direct connection or friendly service relations with another. Most banks, especially country banks, find it convenient to maintain balances with a bank in a larger city or cities, either as reserve, or as a fund against which drafts may be sold and out-of-town checks collected. A Painesville, Ohio, bank, for instance, might keep a balance in Cleveland and another in New York. Oftentimes mutual collection agreements are arranged which specify each bank's obligations and remuneration. Most of the larger eastern banks have correspondents in foreign countries.

Some of the stock exchange commission houses have out-of-town correspondents, usually local investment security firms, who procure orders which are transmitted by private wire for execution on the New York Stock Exchange, Chicago Board of Trade, etc.

### Cost Accounting

See Bank Cost Accounting.

### Cost and Freight

A term used chiefly in import and export transactions meaning that the price quoted includes the cost of the merchandise and the freight to the point of destination, but does not include insurance. The abbreviation used is "c. and f."

### Cost, Insurance and Freight

The price quoted includes not only the cost of the merchandise but also the freight and insurance charges to the point of destination. The abbreviation used is "c. i. and f."

### Co-trustee

A trustee acting jointly with another or others. (See Trustee.)

### Cotton

One of the principal crops and the chief export commodity of the United States. The strongest competitors are Egypt, India and China, and small amounts are imported especially from the first two countries. About half the American crop normally is ex-

ported. O. P. Austin, statistician of the National City Bank of New York has said: "The 6,000,000 persons employed in the production, manufacture and distribution of the finished product represent 30,000,000 mouths to feed; the land on which it grows is worth about \$6,000,000,000; the factories which turn it into cloth another \$6,000,000,000; the finished product which they turn out in a year is worth \$15,000,000,000 at the door of the factory, and the capital invested in the growth, manufacture and distribution of the world crop and its product aggregates approximately \$20,000,000,000."

There are four kinds of cotton, short-staple, long-staple, Sea Island, and Egyptian, each of which for market purposes is carefully graded. There are two principal cotton exchanges in the United States, New York and New Orleans, and a large business is done between them. Trading in cotton is on a spot and future basis, chiefly the latter. The unit of trade is 100 bales of 500 lbs. each, or 50,000 lbs. in total. Cotton is required to be delivered from a licensed warehouse in the month agreed. Fluctuations in cotton prices are recorded in points, a cent being divided into 100 points. The range for cotton in recent years is high 43¾c.; low, 5-5/16c.

The table in the adjoining column shows the production of cotton in the United States.

(See Cotton Futures, Cotton Futures Act, Cotton Grades, New Orleans Cotton Exchange, New York Cotton E-change.)

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#### Cotton Bill

A bill of exchange drawn to finance an export of cotton and secured by the bill of lading. (See Bill of Exchange.)

#### Cotton Exchanges

See New Orleans Cotton Exchange, New York Cotton Exchange.

#### Cotton Futures

A term used to denote future contracts in cotton. A cotton future contract is an "agreement on the part of the seller to deliver, and of the buyer to receive, at some future date, a certain quantity of cotton (in the case of the New York and New Orleans cotton exchanges 50,000 pounds, or approximately 100 bales), the contract price being fixed at the time the contract is made. The

Year*	Production in Bales of 500 Gross Lbs.	Per Cent. Exported	Price Jan. 1 Cents†
1870	4,352,317	72.6	.....
1875	4,632,313	70.6	.....
1880	6,605,750	70.0	.....
1885	6,575,691	66.0	.....
1890	8,652,597	68.3	.....
1895	7,161,094	66.6	.....
1900	10,245,602	66.3	.....
1905	10,725,602	64.6	.....
1906	13,305,265	64.9	.....
1907	11,107,179	68.4	.....
1908	13,241,799	65.4	.....
1909	10,004,949	62.9	.....
1910	11,608,616	66.8	14.6
1911	15,692,701	68.2	14.4
1912	13,703,421	64.3	8.4
1913	14,156,486	62.6	12.2
1914	16,134,930	52.6	11.7
1915	11,191,820	52.8	6.6
1916	11,449,930	46.7	11.4
1917	11,302,375	36.9	17.1
1918	12,040,532	43.7	28.9
1919	11,240,763	56.2	28.7
1920	13,440,000	45.9	35.9
1921	7,954,000	82.3	11.5
1922	9,964,000	61.5	17.9

\* Department of Agriculture Reports.

† Average of reports of county crop reporters, weighted; 1921 and 1922 prices at New York.

#### COTTON PRODUCTION IN THE UNITED STATES

seller, at the time he enters the contract, may or may not have the cotton on hand; in the latter case he is selling short, relying on his ability to secure cotton, prior to the maturity of the contract thus sold. A future transaction differs from a spot transaction in that the latter is made from goods on hand, or immediately available, and calls for practically immediate delivery." (Report of the United States Commissioner of Corporations on Cotton Exchanges, 1908.)

(See Futures.)

#### Cotton Futures Act

An act which became effective February 18, 1915, the full title of which is United States Cotton Futures Act. The purpose of the act is to standardize the practice in trading in cotton futures, and to correct the abuses which previously existed by compelling (1) adoption of uniform standard grades as determined by the Department of Agriculture (see Cotton Grades); (2) exclusion from deliveries of cotton of inferior quality or less than seven-eighths of an inch in length of staple; and (3) adjustment of



differences in value of the various grades on the basis of "commercial differences" based on prices actually paid for the different grades at the various cotton markets of the country, and not upon "fixed" differences.

The following is the text of the act:

"That this Act shall be known by the short title of the 'United States cotton futures Act.'

"Sec. 2. That, for the purposes of the Act, the term 'contract of sale' shall be held to include sales, agreements of sale, and agreements to sell. That the word 'person,' wherever used in this Act, shall be construed to import the plural or singular, as the case demands, and shall include individuals, associations, partnerships, and corporations. When construing and enforcing the provisions of this Act, the act, omission, or failure of any official, agent, or other person acting for or employed by any association, partnership, or corporation within the scope of his employment or office, shall, in every case, also be deemed the act, omission, or failure of such association, partnership, or corporation as well as that of the person.

"Sec. 3. That upon each contract of sale of any cotton for future delivery made at, on, or in any exchange, board of trade, or similar institution or place of business, there is hereby levied a tax in the nature of an excise of 2 cents for each pound of the cotton involved in any such contract.

"Sec. 4. That each contract of sale of cotton for future delivery mentioned in section three of this Act shall be in writing plainly stating, or evidenced by written memorandum showing, the terms of such contract, including the quantity of the cotton involved and the names and addresses of the seller and buyer in such contract, and shall be signed by the party to be charged, or by his agent in his behalf. If the contract or memorandum specify in bales the quantity of the cotton involved, without giving the weight, each bale shall, for the purposes of this Act, be deemed to weigh five hundred pounds.

"Sec. 5. That no tax shall be levied under this Act on any contract of sale mentioned in section three hereof if the contract comply with each of the following conditions:

"First. Conform to the requirements of section four of, and the rules and regulations made pursuant to, this Act.

"Second. Specify the basis grade for the cotton involved in the contract, which shall be one of the grades for which standards are established by the Secretary of Agriculture, except grades prohibited from being delivered on a contract made under this section by the fifth subdivision of this section, the price per pound at which the cotton of such basis grade is contracted to be bought or sold, the date when the purchase or sale was made, and the month or months in which the contract is to be fulfilled or settled: *Provided*, That middling shall be deemed the basis grade incorporated into the contract if no other basis grade be specified either in the contract or in the memorandum evidencing the same.

"Third. Provide that the cotton dealt with therein or delivered thereunder shall be of or within the grades for which standards are established by the Secretary of Agriculture except grades prohibited from being delivered on a contract made under this section by the fifth subdivision of this section and no other grade or grades.

"Fourth. Provide that in case cotton of grade other than the basis grade be tendered or delivered in settlement of such contract, the differences above or below the contract price which the receiver shall pay for such grades other than the basis grade shall be the actual commercial differences, determined as hereinafter provided.

"Fifth. Provide that cotton that, because of the presence of extraneous matter of any character or irregularities or defects, is reduced in value below that of Good Ordinary, or cotton that is below the grade of Good Ordinary, or, if tinged, cotton that

is below the grade of Low Middling, or, if stained, cotton that is below the grade of Middling, the grades mentioned being of the official cotton standards of the United States, or cotton that is less than seven-eighths of an inch in length of staple, or cotton of perished staple or of immature staple, or cotton that is 'gin cut' or reginned, or cotton that is 'repacked' or 'false packed' or 'mixed packed' or 'water packed,' shall not be delivered on, under, or in settlement of such contract.

"Sixth. Provide that all tenders of cotton under such contract shall be the full number of bales involved therein, except that such variations of the number of bales may be permitted as is necessary to bring the total weight of the cotton tendered within the provisions of the contract as to weight; that, on the fifth business day prior to delivery, the person making the tender shall give to the person receiving the same written notice of the date of delivery, and that, on or prior to the date so fixed for delivery, and in advance of final settlement of the contract, the person making the tender shall furnish to the person receiving the same written notice or certificate stating the grade of each individual bale to be delivered and, by means of marks or numbers, indentifying each bale with its grade.

"Seventh. Provide that, in case a dispute arises between the person making the tender and the person receiving the same, as to the classification of any cotton tendered under the contract, either party may refer the question of the true classification of said cotton to the Secretary of Agriculture for determination, and that such dispute shall be referred and determined, and the cost thereof fixed, assessed, collected, and paid in such manner in accordance with such rules and regulations as may be prescribed by the Secretary of Agriculture.

"The provisions of the third, fourth, fifth, sixth, and seventh subdivisions of this section shall be deemed fully incorporated into any such contract if there be written or printed thereon, or on the memorandum evidencing the same, at or prior to the time the same is signed, the phrase 'Subject to United States cotton futures Act, section five.'

"The Secretary of Agriculture is authorized to prescribe rules and regulations for carrying out the purposes of the seventh subdivision of this section, and his findings, upon any dispute referred to him under said seventh subdivision, made after the parties in interest have had an opportunity to be heard by him or such officer, officers, agent, or agents of the Department of Agriculture as he may designate, shall be accepted in the courts of the United States in all suits between such parties, or their privies, as prima facie evidence of the true classification of the cotton involved.

"Sec. 6. That for the purposes of section five of this Act the differences above or below the contract price which the receiver shall pay for cotton of grades above or below the basis grade in the settlement of a contract of sale for future delivery of cotton shall be determined by the actual commercial differences in value thereof upon the sixth business day prior to the day fixed, in accordance with the sixth subdivision of section five, for the delivery of cotton on the contract, established by the sale of spot cotton in the market where the future transaction involved occurs and is consummated if such market be a bona fide spot market; and in the event there be no bona fide spot market at or in the place in which such future transaction occurs, then, and in that case, the said differences above or below the contract price which the receiver shall pay for cotton above or below the basis grade shall be determined by the average actual commercial differences in value thereof, upon the sixth business day prior to the day fixed, in accordance with the sixth subdivision of section five, for the delivery of cotton on the contract, in the spot markets of not less than five places designated for the purpose from time to time by the Secretary of Agriculture, as such values were established by the sales of spot cotton, in such designated five or more markets: *Provided*, That for the purposes of this section such values in the said spot markets be based upon the standards for grades of cotton established by the Secretary of Agriculture: *And provided further*, That whenever the value of one

grade is to be determined from the sale or sales of spot cotton of another grade or grades, such value shall be fixed in accordance with rules and regulations which shall be prescribed for the purpose by the Secretary of Agriculture.

"SEC. 6A. That no tax shall be levied under this Act on any contract of sale mentioned in section three hereof if the contract provide that, in case cotton of grade or grades other than the basis grade specified in the contract shall be tendered in performance of the contract, the parties to such contract may agree, at the time of the tender, as to the price of the grade or grades so tendered, and that if they shall not then agree as to such price, then, and in that event, the buyer of said contract shall have the right to demand the specific fulfillment of such contract by the actual delivery of cotton of the basis grade named therein and at the price specified for such basis grade in said contract, and if the contract also comply with all the terms and conditions of section five hereof not inconsistent with this section: *Provided*, That nothing in this section shall be so construed as to relieve from the tax levied by section three of this Act any contract in which, or in the settlement of or in respect to which, any device or arrangement whatever is resorted to, or any agreement is made, for the determination or adjustment of the price of the grade or grades tendered other than the basis grade specified in the contract by any 'fixed difference system, or by arbitration, or by any other method not provided for by this Act.

Contracts made in compliance with this section shall be known as 'Section six A Contracts.' The provisions of this section shall be deemed fully incorporated into any such contract if there be written or printed thereon, or on the memorandum evidencing the same, at or prior to the time the same is signed, the phrase 'Subject to United States cotton futures Act, section six A.'

Section ten of this Act shall not be construed to apply to any contract of sale made in compliance with section six A hereof.

"SEC. 7. That for the purposes of this Act the only markets which shall be considered bona fide spot markets shall be those which the Secretary of Agriculture shall, from time to time, after investigation, determine and designate to be such, and of which he shall give public notice.

"SEC. 8. That in determining, pursuant to the provisions of this Act, what markets are bona fide spot markets, the Secretary of Agriculture is directed to consider only markets in which spot cotton is sold in such volume and under such conditions as customarily to reflect accurately the value of middling cotton and the differences between the prices or values of middling cotton and of other grades of cotton for which standards shall have been established by the Secretary of Agriculture: *Provided*, That if there be not sufficient places, in the markets of which are made bona fide sales of spot cotton of grades for which standards are established by the Secretary of Agriculture, to enable him to designate at least five spot markets in accordance with section six of this Act, he shall, from data as to spot sales collected by him, make rules and regulations for determining the actual commercial differences in the value of spot cotton of the grades established by him as reflected by bona fide sales of spot cotton, of the same or different grades, in the markets selected and designated by him, from time to time, for that purpose, and in that event, differences in value of cotton of various grades involved in contracts made pursuant to section five of this Act shall be determined in compliance with such rules and regulations.

"SEC. 9. That the Secretary of Agriculture is authorized, from time to time, to establish and promulgate standards of cotton by which its quality or value may be judged or determined, including its grade, length of staple, strength of staple, color, and such other qualities, properties, and conditions as may be standardized in practical form, which, for the purposes of this Act, shall be known as the 'Official cotton standards of the United States,' and to adopt, change, or replace the standard for any grade of cotton established under the Act mak-

ing appropriations for the Department of Agriculture for the fiscal year ending June thirtieth, nineteen hundred and nine (Thirty-fifth Statutes at Large, page two hundred and fifty-one), and Acts supplementary thereto: *Provided*, That any standard of any cotton established and promulgated under this Act by the Secretary of Agriculture shall not be changed or replaced within a period less than one year from and after the date of the promulgation thereof by the Secretary of Agriculture: *Provided further*, That, subsequent to six months after the date, section three of this Act becomes effective, no change or replacement of any standard of any cotton established and promulgated under this Act by the Secretary of Agriculture shall become effective until after one year's public notice thereof, which notice shall specify the date when the same is to become effective. The Secretary of Agriculture is authorized and directed to prepare practical forms of the official cotton standards which shall be established by him, and to furnish such practical forms from time to time, upon request, to any person, the cost thereof, as determined by the Secretary of Agriculture, to be paid by the person requesting the same, and to certify such practical forms under the seal of the Department of Agriculture and under the signature of the said Secretary, thereto affixed by himself or by some official or employee of the Department of Agriculture thereunto duly authorized by the said Secretary.

"SEC. 10. That no tax shall be levied under this Act on any contract of sale mentioned in section three hereof, if the contract comply with each of the following conditions:

"First. Conform to the rules and regulations made pursuant to this Act.

"Second. Specify the grade, type, sample, or description of the cotton involved in the contract, the price per pound at which such cotton is contracted to be bought or sold, the date of the purchase of sale, and the time when shipment or delivery of such cotton is to be made.

"Third. Provide that cotton of or within the grade or of the type, or according to the sample or description, specified in the contract shall be delivered thereunder, and that no cotton which does not conform to the type, sample, or description, or which is not of or within the grade specified in the contract shall be tendered or delivered thereunder.

"Fourth. Provide that the delivery of cotton under the contract shall not be effected by means of 'set-off' or 'ring' settlement, but only by the actual transfer of the specified cotton mentioned in the contract.

"The provisions of the first, third, and fourth subdivisions of this section shall be deemed fully incorporated into any such contract if there be written thereon, or on the document or memorandum evidencing the same, at or prior to the time the same is entered into, the words 'Subject to United States cotton futures Act, section ten.'

"This Act shall not be construed to impose a tax on any sale of spot cotton.

"This section shall not be construed to apply to any contract of sale made in compliance with section five of this Act.

"SEC. 11. That the tax imposed by section three of this Act shall be paid by the seller of the cotton involved in the contract of sale, by means of stamps which shall be affixed to such contracts, or to the memoranda evidencing the same, and canceled in compliance with rules and regulations which shall be prescribed by the Secretary of the Treasury.

"SEC. 12. That no contract of sale of cotton for future delivery mentioned in section three of this Act which does not conform to the requirements of section four hereof and has not the necessary stamps affixed thereto as required by section eleven hereof shall be enforceable in any court of the United States by, or on behalf of, any party to such contract or his privies.

"SEC. 13. That the Secretary of the Treasury is authorized to make and promulgate such rules and regulations as he may deem necessary to collect



the tax imposed by this Act and otherwise enforce its provisions. Further to effect this purpose, he shall require all persons coming within its provisions to keep such records and statements of account and may require such persons to make such returns verified under oath or otherwise, as will fully and correctly disclose all transactions mentioned in section three of this Act, including the making, execution, settlement, and fulfillment thereof; he may require all persons who act in the capacity of a clearing house, clearing association, or similar institution for the purpose of clearing, settling, or adjusting transactions mentioned in section three of this Act to keep such records and to make such returns as will fully and correctly disclose all facts in their possession relating to such transactions; and he may appoint agents to conduct the inspection necessary to collect said tax and otherwise to enforce this Act and all rules and regulations made by him in pursuance hereof, and may fix the compensation of such agents. The provisions of the internal-revenue laws of the United States, so far as applicable, including sections thirty-one hundred and seventy-three, thirty-one hundred and seventy-four, and thirty-one hundred and seventy-five of the Revised Statutes, as amended, are hereby extended, and made to apply, to this Act.

"SEC. 14. That any person liable to the payment of any tax imposed by this Act who fails to pay, or evades or attempts to evade the payment of such tax, and any person who otherwise violates any provision of this Act, or any rule or regulation made in pursuance hereof, shall be deemed guilty of a misdemeanor, and, upon conviction thereof, shall be fined not less than \$100 nor more than \$20,000, in the discretion of the court; and, in case of natural persons, may, in addition, be punished by imprisonment for not less than sixty days nor more than three years, in the discretion of the court.

"SEC. 15. That in addition to the foregoing punishment there is hereby imposed, on account of each violation of this Act, a penalty of \$2,000, to be recovered in an action founded on this Act in the name of the United States as plaintiff, and when so recovered one-half of said amount shall be paid over to the person giving the information upon which such recovery was based. It shall be the duty of United States attorneys, to whom satisfactory evidence of violations of this Act is furnished, to institute and prosecute actions for the recovery of the penalties prescribed by this section.

"SEC. 16. That no person whose evidence is deemed material by the officer prosecuting on behalf of the United States in any case brought under any provision of this Act shall withhold his testimony because of complicity by him in any violation of this Act or any regulation made pursuant to this Act, but any such person called by such officer who testifies in such case shall be exempt from prosecution for any offense to which his testimony relates.

"SEC. 17. That the payment of any tax levied by this Act shall not exempt any person from any penalty or punishment now or hereafter provided by the laws of any State for entering into contracts of sale of cotton for future delivery, nor shall the payment of any tax imposed by this Act be held to prohibit any State or municipality from imposing a tax on the same transaction.

"SEC. 18. That there is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, for the fiscal year ending June thirtieth, nineteen hundred and sixteen, the unexpended balance of the sum appropriated by the Act of March fourth, nineteen hundred and fifteen (Thirty-eight Statutes at Large, page one thousand and seventeen), for 'collecting the cotton futures tax,' or so much thereof as may be necessary to enable the Secretary of the Treasury to carry out the provisions of this Act and any duties remaining to be performed by him under the United States cotton futures Act of August eighteenth, nineteen hundred and fourteen (Thirty-eight Statutes at Large, page six hundred and ninety-three).

"SEC. 19. That there are hereby appropriated out of moneys in the Treasury not otherwise ap-

propriated, available until expended, the unexpended balance of the sum of \$150,000 appropriated by section twenty of the said Act of August eighteenth, nineteen hundred and fourteen, and for the fiscal year ending June thirtieth, nineteen hundred and sixteen, the unexpended balance of the sum of \$75,000 appropriated for the 'Enforcement of the United States cotton futures Act' by the Act making appropriations for the Department of Agriculture for the fiscal year ending June thirtieth, nineteen hundred and sixteen (Thirty-eight Statutes at Large, page one thousand and eighty-six), or so much of each of said unexpended balances as may be necessary, to be used by the Secretary of Agriculture for the same purposes, in carrying out the provisions of this Act, as those for which said sums, respectively, were originally appropriated, and to enable the Secretary of Agriculture to carry out any duties remaining to be performed by him under the said Act of August eighteenth, nineteen hundred and fourteen. The Secretary of Agriculture is hereby directed to publish from time to time the results of investigations made in pursuance of this Act. All sums collected by the Secretary of Agriculture as costs under section five, or for furnishing practical forms under section nine, of this Act, shall be deposited and covered into the Treasury as miscellaneous receipts.

"SEC. 20. That sections nine, eighteen, and nineteen of this Act and all provisions of this Act authorizing rules and regulations to be prescribed shall be effective immediately. All other sections of this Act shall become and be effective on and after the first day of the calendar month next succeeding the date of the passage of this Act: *Provided*, That nothing in this Act shall be construed to apply to any contract of sale of cotton for future delivery mentioned in section three of this Act which shall have been made prior to the first day of the calendar month next succeeding the date of the passage of this Act.

"SEC. 21. That the Act entitled 'An Act to tax the privilege of dealing on exchanges, boards of trade and similar places in contracts of sale of cotton for future delivery, and for other purposes,' approved August eighteenth, nineteen hundred and fourteen (Thirty-eight Statutes at Large, page six hundred and ninety-three), is hereby repealed, effective on and after the first day of the calendar month next succeeding the date of the passage of this act: *Provided*, That nothing in this Act shall be construed to effect any right or privilege accrued, any penalty or liability incurred, or any proceeding commenced under said Act of August eighteenth, nineteen hundred and fourteen, or to diminish any authority conferred by said Act on any official of the United States necessary to enable him to carry out any duties remaining to be performed by him under the said Act, or to impair the effect of the findings of the Secretary of Agriculture upon any dispute referred to him under said Act, or to affect any right in respect to, or arising out of, any contract mentioned in section three of said Act, made on or subsequent to February eighteenth, nineteen hundred and fifteen, and prior to the first day of the calendar month next succeeding the date of the passage of this Act, but so far as concerns any such contract said Act of August eighteenth, nineteen hundred and fourteen, shall remain in force with the same effect as if this Act had not been passed.

"SEC. 22. That if any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgement shall not affect, impair, or invalidate the remainder thereof, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgement shall have been rendered."

## Cotton Grades

Cotton grading depends upon three variables—color, presence of extraneous substances, and length of fiber. For the pur-



pose of future trading, grades are determined by the Department of Agriculture, and cotton is usually graded as follows:

1. White cotton—full grades: (a) middling fair, (b) good middling, (c) low middling, (d) good ordinary; half grades: (a) strict middling fair, (b) strict good middling, (c) strict middling, (d) strict low middling, (e) strict good ordinary; intermediate grades: (a) fully good middling, (b) barely good middling, (c) fully middling, (d) barely middling, (e) full low middling.

2. Tinged Cotton: (a) strict good middling tinged, (b) good middling tinged, (c) strict middling tinged, (d) middling tinged, (e) strict low middling tinged, (f) low middling tinged.

3. Stained cotton: middling stained.

Middling cotton is the basis grade, deliverable at the contract price.

### Coulisse

The outside or *curb* market of Paris.

### Council Bill

See India Council Bills.

### Counter Cash

That part of the money stock of a bank which is entrusted to the paying teller, as distinguished from the reserve cash, *i. e.*, the money which the bank is required by law to maintain as reserve against deposits. The counter cash, also known as till money, is taken into the paying teller's cage during the day and kept in a separate compartment of the vault at other times. It is an amount sufficient to provide for the cashing of checks, as shown by experience.

### Counter Check

A special form of check, so marked, available to the depositors at the desks in the lobby of a bank for convenience in case the check book has been left at home. A counter check can be cashed only at the paying teller's window and by the drawer thereof in person. Its purpose is to prevent swindlers or forgers from using blank checks fraudulently.

### Counterfeit Currency

See Counterfeits.

### Counterfeits

Fraudulent, spurious, "bogus," or imitation money; money manufactured in imitation of

genuine money. The Government has a monopoly of coinage and any private person who makes coins or paper money is a counterfeiter. The law provides that "every person who fraudulently by any act, ways or means, devises, imitates, impairs, diminishes, falsifies, scales or lightens the gold and silver coins which have been or which may hereafter be coined at the mints of the United States, or any foreign gold or silver coin which is by law made current or in actual circulation as money within the United States, shall be imprisoned not more than two years and fined not more than \$2,000." Counterfeit coins consist of base metal, while counterfeit bills are made according to the processes described below.

The law concerning forging and counterfeiting national bank notes is as follows: "Whoever shall falsely make, forge, or counterfeit, or cause or procure to be made, forged or counterfeited, or shall willingly aid or assist in falsely making, forging or counterfeiting, any note in imitation of, or purporting to be in imitation of, the circulating notes issued by any banking association now or hereafter authorized and acting under the laws of the United States; or whoever shall pass, utter, or publish, or attempt to pass, utter, or publish, any false, forged, or counterfeited note, purporting to be issued by any such association doing a banking business, knowing the same to be falsely made, forged, or counterfeited; or whoever shall falsely alter, or cause or procure to be falsely altered, or shall willingly aid or assist in falsely altering any such circulating notes, or shall pass, utter, or publish, or attempt to pass, utter, or publish as true, any falsely altered or spurious circulating note issued, or purporting to have been issued, by any such banking association, knowing the same to be falsely altered or spurious, shall be fined not more than \$1000, and imprisoned not more than fifteen years.\*

One of the duties of paying tellers, receiving tellers and money clerks is to detect counterfeit money, and consequently they should be skilled in the art of counterfeit detection. Counterfeits are not easily detected by the visual process. They are more easily "caught" by the feeling of the weight and texture than by the appearance. The paper furnishing the basis for paper currency is made by a secret process and is difficult to imitate. Generally the quality of counterfeit paper is inferior to the paper used by the Government, and red and blue

\* R. S. L., 5415; Act. March 4, 1909, sec. 149; 35 Stat. L., 1115.

ink lines are used to imitate the red and blue silk threads in the genuine bills.

There are three principal methods of making counterfeit bills. The first is copying bills by hand, reproducing each finest line and imitating the silk thread in the paper of the genuine issue with delicate pen and ink work. Such work is performed only by experts—probably those who have formerly been engaged in the Bureau of Engraving and Printing. Some of these notes have been so skillfully imitated as to deceive the naked eye of experts.

The second method is to engrave a steel plate from which the counterfeit bills are printed. This process is more remunerative than the first because many bills can be reproduced from the same plate.

The third and most usual process is that of photographic reproduction. The photo-engraving process bills are not as accurate as the steel engraved bills and are the easiest of all to detect. The engraving is apt to be less distinct and of lighter color than in the genuine, for the reason that the plates are made from photographs of the original and something is lost in the process.

There are two principal methods of making counterfeit coins. The first is casting from a mold; the second is stamping with a die and press. In the casting process a mold is made from a new and genuine coin. In the stamping process a die must be made and the counterfeit money is struck off with sharp blows of a heavy press. The stamping process produces better results because the impression is more clearly cut, this, in fact, being the method used in manufacturing genuine coins.

No exact formulas can be given for the detection of counterfeits. Judgment, experience, knowledge of counterfeiters' technical processes, and familiarity in handling currency are the best guides. Supplementing the guides suggested, the most competent assistance available in discovering counterfeits is the alarm spread by the periodical entitled, "The Counterfeit Detector," which describes each counterfeit issue that comes to the attention of the United States Secret Service Department. Two sources of information are the Co-operative Bank Organizations and the Government Secret Service Agents. Whenever counterfeits are discovered, the account of the customer depositing them should be charged, and the Secret Service Department of the Government notified.

"The Act of June 30, 1876 (19 Stats. U. S. 64), requires that all United States

officers charged with the receipt or disbursement of public moneys, and all officers of National banks, shall stamp or write in plain letters the word "counterfeit," "altered," or "worthless" upon all fraudulent notes issued in the form of and intended to circulate as money which shall be presented at their places of business; and if such officers shall wrongfully stamp any genuine note of the United States or of the National banks, they shall, upon presentation, redeem such notes at their face value.

Counterfeit notes found in remittances from banks are cancelled and returned for the purpose of enabling the owner to make reclamation, and after such use they must be returned to the Treasurer of the United States for transfer to the Secret Service Division of the Treasury Department.

Counterfeit notes found in remittances from individuals are cancelled and sent to the Secret Service Division. The sender is advised of the fact and informed that, if he will communicate with the chief of that division, arrangements may be made to have such notes submitted for reclamation.

Counterfeit coins found in remittances to the Treasurer are cancelled and sent to the Secret Service Division, a receipt for the same being returned to the sender, who may communicate with the chief of that division if he desires to have such coin submitted for reclamation.

Counterfeit coin received at the subtreasuries (now Federal Reserve banks) is retained, to be called for by agents of the Secret Service at certain stated periods. A receipt is issued to the sender or depositor, when desired, to enable him to make reclamation for coin so retained.\*

### Countermand

To cancel an order which has not yet been executed.

### Countersign

See Countersignature.

### Countersignature

A signature denoting approval, or vouching another signature. For purposes of internal check and to locate responsibility for purchases, many corporations provide that all disbursement checks shall be signed by more than one official. Whenever a check is signed by more than one official, the additional signatures are called countersignatures.

\* Treasury Department Circular 55-A.

A copy of the resolution of the Board of Directors authorizing certain officials to disburse the company's funds is placed upon file in the records of the bank having the account so that the bank and its paying officers may be apprised of the proper number of signatures that should appear upon a company's checks before it cashes them, or receives them for credit.

### Country Banks

Banks located in *Undesignated Cities* (q. v.); *i. e.*, banks not located in *Central Reserve Cities* (q. v.) or *Reserve Cities* (q. v.). Country banks' reserve requirements are usually less than for large city banks, *e. g.*, country banks which are members of the Federal Reserve System are required to maintain a 7 per cent. reserve against net demand deposits, as compared with 10 per cent. for Reserve Cities and 13 per cent. for Central Reserve Cities.

From the standpoint of collection of country checks through the Federal Reserve par collection system, country banks are those not located in a city where a Federal Reserve bank or branch is established.

### Country Checks

Out-of-town or transit checks; also checks drawn on banks not located in a city where a Federal Reserve bank or branch is established.

### Country Collections

See Collection Items.

### Coupon

See Coupons.

### Coupon Bonds

Negotiable bonds not registered in the name of the owner as distinguished from *Registered Bonds* (q. v.). Coupon bonds are payable to bearer, title passing by delivery without indorsement. Interest upon coupon bonds is received by clipping the attached coupons as they mature and presenting them for payment to the issuer (debtor organization), or the issuer's fiscal agent. (See Coupons, Registered Coupon Bonds.)

### Coupon Book

See Coupon Ledger.

### Coupon Check

See Coupon Payments Account.

### Coupon Collection Department

A department in large banks or trust companies, especially in financial centers, to receive coupons from individual customers and bank correspondents, for presentation to and collection from the various designated paying agents. Coupons are assorted and presented to the advertised paying agents ascertained by reference to various guides, which publish the names and addresses of paying agents for the principal issues of bonds. The most important of these guides are the Red Book (published in June each year with monthly supplements by the Financial Information Co., New York) and Bullinger's Monitor Guide. Announcements of interest payments are also frequently published in the financial newspapers.

Coupons detached from all Government bond issues are collectible through Federal Reserve banks, and coupons collectible through out-of-town paying agents, are forwarded through the mails in the same manner as out-of-town checks.

Matured coupons are accepted both for cash and for collection. If on a cash basis, the proceeds are credited to the depositor's account immediately; if on a collection basis, when and if paid.

### Coupon Collection Teller

A bank teller who manages the collection of matured coupons deposited on a collection or credit basis by depositors and correspondents. The Coupon Collection Teller is the manager of the *Coupon Collection Department* (q. v.).

### Coupon Ledger

The ledger in which a bank or trust company, acting as coupon-paying agent, records the receipts of funds with which to pay coupons, disbursements for their redemption when presented for payment, and the numbers of coupons paid. By reference to this ledger it is possible to ascertain the sum received to pay coupons, amount of coupons presented and paid, and amount outstanding, if any.

### Coupon Paying Department

A department of a bank or trust company located in a financial center, which because of its special facilities, is appointed paying agent by various debtor organizations (corporations and civil divisions) for the specific purpose of paying matured coupons and bonds. This department is a specialized department for performing this distinct fiscal



agent function when the volume of this business is sufficiently large to warrant the organization of a separate department.

By appointing a bank or trust company to pay its coupons, the issuer shifts the burden of making a large number of small disbursements upon an institution which has superior facilities for performing the service safely, efficiently, and economically. The debtor organization needs only to authorize its agent and to issue one check; whereas the bank or trust company is called upon to make many small disbursements when matured coupons are presented for payment by their owners, or when other banks present them in behalf of their customers.

Coupons are not paid unless the bank or trust company has been officially appointed as fiscal or paying agent, or has instructions to pay from the debtor organization, or its fiscal agent, and unless funds have been deposited in sufficient amount to redeem in full the maturing bonds or coupons. Usually the institution acting as paying agent has standing instructions to pay maturing coupons at each successive maturity date. The commission for paying bonds and coupons has become standardized, and is usually  $\frac{1}{4}$  per cent. for coupons, and  $\frac{1}{8}$  per cent. for bonds.

**Coupon Payments Account**

A general ledger account which represents the total coupon checks outstanding. Coupons are usually paid by the institution acting as fiscal agent by a special check, marked *Coupon Check*, so that coupon redemption payments may be readily distinguished from other checks issued by the bank or trust company. This account is credited when coupon checks are issued, and debited when they return through the paying teller's department, clearing house, or otherwise.

**Coupons**

Certificates attached to a (coupon) bond which represent sums of interest due at stated maturities, which the bond promises to pay. Coupons are negotiable instruments which state that the debtor organization (issuer and obligor) through its paying agent, usually a bank or trust company will pay to the bearer at maturity a certain sum of money representing interest due for a stated period upon bond No. —, of a specified issue. A bond is a contract to pay two things; a principal amount on a stated future date, and a series of interest payments, usually semi-annually but sometimes annually or quarterly,

during the life of the bond. The bond itself stands for the principal, and the coupons stand for the series of interest payments due each half year, or other period, and are promises to pay just as the bond itself is. Popularly expressed, coupons are miniature or "baby promises to pay," attached to bonds which are "parent promises to pay."

The essential facts recited on a coupon, which must be identified with its parent bond, are as follows: (1) name of debtor organization; (2) name of issue; (3) face value of coupon; (4) coupon maturity date; (5) name of paying agent; (6) serial number (numerical order of the interest payment from the first of the series); and (7) number of parent bond.

Coupons are negotiable instruments, title passing by delivery without indorsement, provided ownership certificates prescribed by the Treasury Department are attached, except in the case of bonds of the United States Government, where it is unnecessary. To stop payment upon coupons, the paying agent must, as in the case of a certified check, be protected by a bond of indemnity, from the issuer. Stopping payment on coupons has sometimes been used as a technical excuse for beginning foreclosure proceedings. Without a bond of indemnity a paying agent has no legal ground for refusing to pay coupons presented except where flagrant irregularities exist.

The following are typical examples of the body of a coupon taken from various classes of bonds:

I — *Government*

\$21.25 (Serial No. 4)  
 The United States of America will pay to bearer on May 15, 1920, Twenty-one Dollars and Twenty-five cents (\$21.25) at the Treasury Department, Washington, or at a designated agency, being six months interest then due upon \$1,000 coupon bond of the  $4\frac{1}{4}$  per cent. 2nd Liberty Loan, converted, 370805.

II — *Municipal*

\$12.50 (Serial No. 36)  
 On the first day of January, 1920, City of Laurel, Jones County, Mississippi, promises to pay bearer, Twelve Dollars and Fifty Cents (\$12.50) at the Blank Trust Company of the City of New York for interest due that day on its Water Works Bond No. 2.

.....  
 City Clerk  
 .....  
 Treasurer

III — *Public Utilities*

(a)

\$25.00 (Serial No. 14)

On January 1, 1920, the Sioux City Power Company will pay to the bearer Twenty-five Dollars (\$25.00) in gold coin of the United States of America, at the Illinois Trust and Savings Bank, of the City of Chicago, or at the election of the said bearer, at the fiscal agent of the Illinois Trust & Savings Bank in New York City, without reduction for taxes, for six months interest due on that day on 1st and Refunding Mortgage Sinking Fund Gold bond of said company unless said bond is sooner redeemed and subject to the terms of said bond and trust indenture therein mentioned, No. 867.

.....  
Asst. Treasurer

(b)

\$30.00 (Serial No. 64)

On the 1st day of January, 1920, unless the note to which this coupon is attached shall have been previously redeemed, Middle West Utilities Company will pay to the bearer upon surrender of this coupon at the office of the Illinois Trust & Savings Bank of the City of Chicago, or at the option of the holder hereof at the office of the Blank Trust Company in the City of New York, Thirty (\$30.00) Dollars in gold coin, being six months interest then due on its three-year collateral gold note, Series D, No. M. 807.

.....  
TreasurerIV — *Railroad*

\$20.00 (Serial No. 36)

The New York, Chicago, and St. Louis Railroad Company will pay to the bearer, Twenty (\$20.00) Dollars in gold coin of the United States of America in the City of New York, on the 1st day of October, 1919, for semi-annual interest upon bond No. 12092.

.....  
TreasurerV — *Industrial*

\$30.00 (Serial No. 6)

The Cuban Sugar Mills Corporation will pay to the bearer at the Trust Company of Cuba in the City of Havana, or at the Blank Trust Company in the City of New York, Thirty (\$30.00) Dollars in gold coin of the U. S. of America, or equivalent to the standard of weight and fineness existing Jan. 1st, 1917, free from taxes specified in the attached bond on the 1st day of January, 1920, being six months interest then due on its first mortgage, 6 per cent. Sinking Fund Gold Bond, No. 541, unless said bond shall have been called for previous purchase or redemption.

.....  
Secretary**Coupon Teller**

A bank teller who manages the redemption of matured coupons when presented for payment. His function is similar to that of the paying teller except that he cashes coupons instead of checks. When coupons are presented for payment they are scrutinized to see that they are genuine and regular in all respects. Since a number of fraudulent and worthless coupons are in circulation, the coupon teller must be thoroughly familiar with the general appearance of the coupons of the most important issues in order to avoid paying worthless varieties. Among other points he must see that the bank has been authorized as paying agent, that funds have been deposited in sufficient amount to redeem the issue, that the coupons have matured, that no stop-order has been issued against them, that the correlative bonds have not previously been called for redemption, that they bear the bond number, etc. The coupon teller is the manager of the *Coupon Paying Department* (q. v.).

**Course of Exchange**

A technical name applying to a schedule of quotations for bills, drafts, and checks, compiled twice a week by the principal London bill brokers who meet at the London Stock Exchange. (See Foreign Exchange.)

**Court Trusts**

Trusts in which a bank or trust company acts under the appointment or order of a court. From a statutory standpoint, trusts are classified as court trusts and private trusts.

In New York State a trust company must be designated as a depository of trust funds by the Comptroller of the State of New York, or be appointed to receive such funds pursuant to the order or direction of a court in any state, or the United States. Funds under court trusts must be invested in accordance with the court order, if specific; otherwise, the funds may be invested in any class of investments approved by the state law as legal for trustees.

**Cover**

This term has three meanings:

(1) A term used to signify the purchase of stocks by short sellers to complete their contracts. To cover is to buy back stock that has previously been sold short. (See Short Sale.)



(2) A term frequently used instead of security. A loan evidenced by a promissory note is said to be covered when secured by bonds, stocks, or other collateral of equal or greater value. It is especially used in connection with the security behind different forms of paper money, *e. g.*, gold cover behind Federal Reserve notes. One hundred and eight gold cover for Federal Reserve notes means that for each hundred dollars of notes, there is \$108 in gold as security deposited with the Federal Reserve agent.

(3) The contingencies or risks outlined in an insurance policy for which the insurance company is liable, *e. g.*, a marine insurance policy provides indemnity, *i. e.*, covers losses due to damage by fire, flood, collision, sinking, but not for losses due to riot, rebellion, or capture and seizure by an enemy.

A life insurance policy covers the life of the insured.

## Credit

A term derived from the Latin word, *Credo*, meaning *I believe*, and usually defined as the ability to buy with a promise to pay, or the ability to obtain title to and receive goods for enjoyment in the present although payment is deferred to a future date. It therefore consists of an actual transfer and delivery of goods in exchange for a promise to pay in the future.

Modern business to a very large extent is conducted on a credit basis. The occasion for credit arises out of the nature of present day industrial processes in which a series of productive and distributive operations transpires between the beginning of production and ultimate consumption when the account is finally liquidated. Credit is the instrument by which this gap is bridged, *i. e.*, by which each agent in the sequence of productive and distributive processes, receives payment for his contribution in moving goods to the consumption point, before consumption actually occurs. Although credit furnishes waiting power, it cannot be considered as identical with *Capital* (*q. v.*), but it makes capital mobile.

Granting credit depends upon the confidence which the lender places in the debtor (borrower), and is based on three essential factors, *viz.*: character, capacity and capital. Lending on character is known as the moral risk; on capacity, as the business risk; on capital, as the property risk.

Of these three elements character is the most important. The personal equation transcends all others because without char-

acter and integrity no person can be trusted regardless of the ability or property he may possess. Character includes integrity of purpose, reputation for honesty, promptness in paying debts and fulfilling contracts, high standard of business ethics, record of past performances and antecedent connections, etc. Capacity involves business ability, reputation of product, soundness of business methods, particularly as evidenced by profit-making records. The real index for measuring the business risk is the detailed comparative operating statements by which the rate of return to invested capital over a period of time is disclosed. Capital is net worth—the real measure of a borrower's collateral. Property which has a ready market, whether used in the business or not, constitutes the basis of the property risk.

An ideal borrower or credit risk combines all three of these elements in a high degree, *i. e.*, unimpeachable moral character, unquestioned business ability, and adequate capital. Character stands foremost, ability second, and capital third. It is safe to say that no loans will be granted where the first essential does not exist. Certainly loans will not be granted where business ability has not been proved unless adequate collateral is given. On the other hand, if the first two elements are strong, inadequate capital may not necessarily operate as a deterrent influence.

From the banking standpoint, credit has reference to a person's or concern's power to command funds or to secure deposit credits. Persons or concerns already well known, and having an established credit reputation, are usually granted a *Line of Credit* (*q. v.*) at their banks. This *line* is the normal limit of accommodation. Such a *line of credit* is not always definitely fixed but varies from time to time in accordance with the financial standing of the borrower as shown by his financial statement, the bank's loanable resources and general money and trade conditions. (See Business Risk, Credit Balance, Credit Department, Credit Files, Credit Information Sources, Credit Instruments, Credit Insurance, Mercantile Agencies, Moral Risk, Property Risk, Statement Analysis.)

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### Credit Agency

See Mercantile Agencies.

### Credit Balance

The excess of credits over debits in an account.

A bank depositor customarily has a credit balance. A debit balance occurs only when an overdraft has been made. The amount of the credit balance represents the depositor's claim against the bank, and the bank's debt to the depositor.

Marginal accounts with a broker normally show a debit balance, because the customer is borrowing from the broker to carry stocks for which the customer has not fully paid. A credit balance exists in favor of the customer only when there is money due the customer above all claims, such as interest, commissions, taxes, etc.

### Credit Barometrics

A term (first used by A. Wall in the "Banker's Credit Manual") given to the test ratios applied by credit men in the analysis of financial statements submitted as bases for bank loans. The following ratios, discussed under separate headings are used in credit analysis work: Ratio of Current Assets to Current Liabilities (See Current Ratio); Ratio of Current Assets to Total Liabilities; Ratio of Merchandise to Sales (See Merchandise Turnover); Ratio of Net Profits to Net Worth; Ratio of Receivables to Sales (See Account Turnover); Ratio of Debt to Net Worth; Ratio of Net Worth to Fixed Assets; Ratio of Net Worth to Sales (See Capital Ratio); Ratio of Merchandise to Receivables; and Ratio of Fixed Assets to Sales.

### Credit Company

See Commercial Credit Company.

### Credit Currency

Redeemable paper money, which the Government promises to pay, but for which there is not a full specie reserve, *i. e.*, not fully secured by a gold or silver reserve, *e. g.*, the United States notes of 1863, also known as *legal tenders*. Unlike gold and silver certificates, which circulate in lieu of an equal amount of coin, these notes are not intended as substitutes for metallic currency, but for the purpose of expanding the volume of currency. Credit currency is only partially secured by a gold reserve, the larger portion being secured only by the general assets and credit of the issuing Government. Credit currency is also known as fiduciary currency. Bank notes are a form of credit currency.

### Credit Department

*Mercantile.* The department of a company through which all credit orders, *i. e.*, orders for current delivery, but with payment postponed, are passed for acceptance or rejection. The department scrutinizes new applications for credit through various credit information sources, and "checks" running or open accounts. It fixes a "line" of credit for each customer and determines and carries out the collections policies.

*Bank.* The department of a bank organized primarily to determine and measure credit risks, which lead to a recommendation for action when applications for loans are made. The purpose of the department is to reduce to the minimum, if not absolutely to prevent, losses arising through the failure of concerns to which money is loaned. Credit departments of many banks also reciprocate credit information with correspondent banks, trade customers, and other affiliations, and for this reason not only serve as a "checking" bureau for their own organization, but for others as well. The most important type of assistance rendered is that of presenting to the credit officers, and the loan and discount committee, such facts as are necessary to provide a basis for intelligently granting or rejecting loans, discounts, and renewals thereof, issuing letters of credit, purchasing bills of exchange, and also establishing "lines" of credit.

The work of the credit department may be broadly divided into three parts, that of gathering credit information (credit investigation), filing and storing credit information (credit files), and utilizing and distributing

credit information (credit analysis). (See Credit Information Sources, Mercantile Agencies, Statement Analysis.)

### Credit Files

The part of a bank credit department in which credit information is recorded, classified, filed, and stored. Usually the credit information on each name is recorded in a folder and placed in a metal sectional file cabinet. In large banks credit files become very extensive in the course of time, and often contain thousands of names. The files are the backbone of the department, since they contain the raw material from which all inquiries concerning the credit standing of the names on record are answered. (See Credit Files Revision, Credit Folder.)

### Credit Files Revision

Information in the credit files must be kept up to date. Information previously gathered is valuable, because it affords insight into the history of a concern or individual and these antecedent relations are always important. Yet the character and earning power of a business may change very suddenly, and consequently names upon which no new information has been recorded for one year are usually regarded as out of date and require revision if inquiries are made. Borrowing bank accounts should be revised only every second year. Trade names are revised more frequently, due to the fact that business concerns are less apt to be stable than banks, and their financial status therefore, less apt to fluctuate. Trade names are not usually revised periodically, but when ever conditions seem to warrant it. If a report is desired and the standing information is more than nine months old, a revision is usually advisable. Revision of a credit folder follows the same lines as an original investigation, *viz.*: direct investigation of trade and banking connections in and out-of-town, mercantile agencies, and the note broker, in case of commercial paper names. (See Credit Information Sources, Credit Investigation.)

### Credit Folder

A binder or cover which contains the complete record of credit information concerning a given name. To distinguish between different classes of names, *e. g.*, banks, trade names, public utilities, commercial paper names, etc., different colored folders are often used. Folders are filed alphabetically according to names in metal filing cabinets.

Information in the credit folder is generally classified according to some logical grouping, and separated by guides as an aid in locating the particular information desired. A typical classification of information in a credit folder is as follows: history sheet, average loans and balances, financial statements, investigation, and reports inquiries, agency reports, affiliations and subsidiaries, circulars and prospectuses, newspaper clippings, summarization.

### Credit Foncier de France

The principal mortgage land bank of France, which makes loans both on agricultural and urban land up to one-half the appraised value. It also discounts commercial paper.

### Credit Information Sources

Sources of credit information are becoming more varied as the demand for accurate credit information and the desire to eliminate undesirable risks becomes more insistent. The sources open to a bank differ depending upon whether the subject of inquiry is a local, out-of-town, or foreign name.

In the case of local names, a credit investigator usually is sent to interview the subject of inquiry, or one of its responsible representatives, *i. e.*, the individual or concern under investigation. The investigator also usually interviews several trade references of the subject of inquiry, including trade creditors, trade debtors, and possibly a competitor. Interviews conducted with the banking connection or connections are regarded as specially important. In the case of commercial paper names, the note broker who sells the paper of the concern is interviewed. Written inquiries may be directed to trade and banking references out of town whenever there is reason to believe that better information may be derived from these sources. Next in importance are the financial statements—balance sheets and the profit and loss statements. Reports from the mercantile agencies are almost always available, but only information of the most general nature can be expected from them.

The records of the bank should contain valuable information on names which are customers of the bank, *e. g.*, size of balances, method of borrowing, "lines" of credit, securities on deposit, requests for renewals, promptness in meeting maturities, allowing notes to go to protest, etc. An examination of the indorsements on cancelled checks will also reveal the purpose for which the con-



cern is spending its money. The public record such as the judgment indexes, records of pending suits, and records of mortgages and real estate transfers are always available. Oftentimes information is contained in various financial publications, manuals, and "services." The officers of the institution usually have intimate personal knowledge of the affairs of many of their customers.

In the case of out-of-town names the same sources of information are available, except that it becomes necessary to omit personal investigation and written inquiries directed to the same sources may be submitted.

The chief credit information sources for foreign names are as follows: The principal New York banks which maintain foreign departments, and close relations with correspondent banks abroad; New York import and export houses, which are ready to furnish their clients and banking connections with information regarding names with which they do business; the foreign departments of the principal mercantile agencies; foreign chambers of commerce located in New York City, which are supported by the merchants of the countries they represent for the purpose of promoting trade relations; various trade associations, *e. g.*, the National Association of Credit Men.

### Credit Instruments

Paper or documents, other than paper money supported by specie which evidence current or long-term debt. Credit instruments include checks of all kinds, certificates of deposit, drafts, bills of exchange, notes, acceptances, money orders, letters of credit, bonds, stock certificates, certificates of indebtedness, coupons, etc.

From a legal standpoint, credit instruments may be divided into two classes, promises to pay and orders to pay. The chief promises to pay are promissory notes, trade acceptances, circulating National bank notes, bonds, coupons, certificates of debt, book accounts, and bank deposits. The chief orders to pay are checks, drafts, bills of exchange, money orders, telegraphic transfers, cable transfers, and letters of credit.

In the United States credit instruments have largely displaced the use of money and it is estimated that 95 per cent. of the transactions in the wholesale trade and about 60 per cent. of the transactions in the retail trade are settled by means of credit instruments. The extent of use of credit instruments depends upon banking facilities, business habits, general intelligence and confidence in banks. (See Credit.)

### Credit Insurance

Insurance provided against losses from bad debts arising from the sale of goods on credit. Coverage for uncollectible accounts, though far less frequent than coverage for fire losses, is equally as important, since bad accounts occur more frequently than fires and are as much a loss as destroyed or damaged merchandise.

Credit insurance does not usually indemnify the insured against all credit losses, but only for an amount in excess of the average over a certain period, say four years. Policies also usually subject the insured to certain limitations, *e. g.*, limitations of line of credit to each purchaser, limitation of sales to purchasers having a certain commercial rating or better. (See Bad Debts, Credit, Mercantile Agencies.)

### Credit Line

See Credit, Line of Credit.

### Creditor

One to whom money or its equivalent is due.

### Creditor Country

A country which has a trade balance in its favor, *i. e.*, whose exports are greater than its combined visible and invisible imports. (See Balance of Trade.)

### Credit Rating

A grade assigned to a business concern by a mercantile agency to denote the net worth and credit standing to which the concern is entitled in the opinion of the agency as a result of its investigation. Dun's and Bradstreet's both submit a capital and credit rating for each name appearing in their general reference books. The capital rating indicates the approximate amount of net capital invested, while the credit rating shows the credit grade, *i. e.*, moral and business risk, in a relative scale.

On the following page will be found the capital and general credit ratings employed by R. G. Dun & Co.

### Credit Ticket

A posting medium used in banking and brokerage bookkeeping to secure the posting of a transaction occurring in any department to the credit side of the customers' or general ledger. It carries a complete description of the transaction and is preserved for future reference.



Estimated Pecuniary Strength or Capital			High	General Good	Credit Fair	Limited
AA	Over	\$1,000,000	A1	1	1½	2
A+	Over	750,000	A1	1	1½	2
A	\$500,000 to	750,000	A1	1	1½	2
B+	300,000 to	500,000	1	1½	2	2½
B	200,000 to	300,000	1	1½	2	2½
C+	125,000 to	200,000	1	1½	2	2½
C	75,000 to	125,000	1½	2	2½	3
D+	50,000 to	75,000	1½	2	2½	3
D	35,000 to	50,000	1½	2	2½	3
E	20,000 to	35,000	2	2½	3	3½
F	10,000 to	20,000	2½	3	3½	4
G	5,000 to	10,000		3	3½	4
H	3,000 to	5,000		3	3½	4
J	2,000 to	3,000		3	3½	4
K	1,000 to	2,000		3	3½	4
L	500 to	1,000			3½	4
M	Less than	500			3½	4
Where only a credit rating appears, this line of credit designation applies .....			1	2	3	4

CREDIT RATINGS EMPLOYED BY R. G. DUN & Co.

**Credit Union**

According to the New York banking law, a domestic moneyed stock or non-stock corporation organized for the purpose of promoting thrift among its members and for making small loans to its members at reasonable rates with or without security. In New York State, loans above \$50 must be secured by collateral.

**Cremation Certificate**

A certification that retired securities have been destroyed by burning; a statement signed by certain persons, *e. g.*, trustees, committee, etc., selected or appointed, that they have witnessed the total destruction by fire of the therein-mentioned securities.

**Cremation of Bonds**

Destruction of bonds by fire. One method of disposing of bonds that have been redeemed and cancelled is to burn them. This is usually the method taken when the bonds are secured by a mortgage held by the trustee for the bondholders. After the mortgage has been satisfied of record, the bonds are burned in the presence of the trustee, and a *Cremation Certificate* (q. v.) is executed.

**Crime of 1873**

A derisive designation applied to the coinage act of February 12, 1873, which demonetized silver by authorizing the discontinuance of its coinage as a standard coin. (See Demonetization.)

**Crisis**

The collapse of a period of prosperity, *i. e.*, the termination of a rising price trend, general optimism, inflation and speculation. It is a turning point or decisive moment at the crest of the business cycle when it becomes clear that the price structure has become top-heavy and that the next movement must be downward. It may be precipitated by a sudden realization that prices have gone too high (buyers' strike), by a sudden restriction of or stringency in the supply of credit, by an unexpected bankruptcy of some conspicuous bank or business concern, or by the outbreak of war.

A crisis should not be confused with a panic, the latter being a serious financial and credit disturbance into which a crisis may degenerate. A crisis may be followed by a panic and is almost invariably followed by an industrial depression. (See Business Cycle.)

**Crop Reports**

Bulletins issued by the Department of Agriculture, showing the condition, acreage, estimated and actual yields of the important crops. The Bureau of Market and Crop Estimates of the Department of Agriculture formerly issued monthly detailed reports relating to agricultural conditions throughout the United States in three separate bulletins or magazines entitled, "Market Reporter," "Monthly Crop Reporter," and "National Weather and Crop Bulletin." Beginning January 7, 1922, these three bulletins were

combined into a single weekly publication, entitled, "Weather, Crops, and Markets."

Monthly estimated crop conditions for all principal crops in total and by states are published in the mid-month (after the 10th) issue of "Weather, Crops, and Markets," as of the first of the month. Illustrating the type of information given upon the condition of winter wheat, for instance, the following data was published on May 1, 1922:

1. Per cent. of area abandoned (since last report).
2. Area remaining to be harvested (acres).
3. Condition (percentage of 100) for 1921.
4. Condition (percentage of 100) for 1922.
5. Condition (percentage of 100) for ten year average.
6. Condition (percentage of 100) for April 1, 1922.
7. Forecast of yield based on May 1, 1922, condition.
8. Forecast of yield based on Dec. 1, 1921, condition. (100 per cent. indicates a normal *full* crop, and not the average crop which is usually less than normal).

The data upon which these estimates are based are obtained through a special field service conducted by a large body of voluntary correspondents, *e. g.*, country correspondents, township correspondents, individual correspondents, individual farmers, and special cotton correspondents. The special field service consists of travelling agents each of whom is assigned to report on a given group of states. These agents are especially qualified by reason of their statistical training and practical knowledge of crops.

Eleven monthly reports on the principal crops are forwarded annually and six special cotton crop reports are dispatched to the bureau during the growing season. Reports from field agents are prepared by a special crop reporting board.

Abstracts of weather condition reports as related to various crops by states are prepared from the weekly bulletin by the weather bureau. These data are compared and discussed by the board and the final estimates for each state are then determined. Estimates by states as finally determined by the board are weighted by the acreage figures for the respective states so that the result for the entire United States is a true weighted average for each crop.

## THE NORMAL

(Defined in the "Crop Reporter"—Department of Agriculture.)

So many of the reports of the statisticians of the Department of Agriculture are based upon a comparison with the normal that it is a matter of the greatest importance that there should be a clear understanding of what the normal really means.

To begin with, a normal condition is not an average condition, but a condition above the average, giving promise of more than an average crop.

Furthermore, a normal condition does not indicate a perfect crop, or a crop that is or promises to be the very largest in quantity and the very best in quality that the region reported upon may be considered capable of producing. The normal indicates something less than this, and thus comes between the average and the possible maximum, being greater than the former and less than the latter.

The normal may be described as a condition of perfect healthfulness, unimpaired by drought, hail, insects, or other injurious agency, and with such growth and development as may reasonably be looked for under these favorable conditions. As stated in the instructions to correspondents, it does not represent a crop of extraordinary character, such as may be produced here and there by the special efforts of some highly skilled farmer with abundant means, or such as may be grown on a bit of land of extraordinary fertility, or even such as may be grown quite extensively once in a dozen years in a season that is extraordinarily favorable to the crop to be raised. A normal crop, in short, is neither deficient on the one hand nor extraordinarily heavy on the other. While a normal condition is but rarely reported for the entire corn, wheat, cotton, or other crop area, at the same time or in the same year, its local occurrence is by no means uncommon, and whenever it is found to exist, it should be indicated by the number 100.

Sometimes a favorable season for planting is followed by a favorable growing season, with no blight and no depredations by insects, the result being a normal condition. At other times the normal may be maintained by conditions that are exceptionally favorable in one or more particulars, counterbalancing conditions that are unfavorable in other particulars. Thus, a crop may have had such an unusually good start that it may pass without injury through a period of drought that would otherwise have proved disastrous to it, or more than ordinary vigor and potentiality may fully offset some slight injury from insects.

The normal not being everywhere the same, in determining how near the condition of any given crop is to the normal cor-

respondents will usually find it an advantage to have a definite idea of what yield per acre would constitute a full normal crop in their respective districts, *i. e.*, how many bushels, pounds, or tons per acre of a particular crop would be produced in a season that was distinctly not exceptionally favorable. In a region where 30 bushels of corn may be taken as the normal, a condition of 90 would give a prospect of a crop of 27 bushels, and 80 a crop of 24 bushels. If 40 bushels be considered the normal yield, 90 (or 10 per cent. less than the normal) would indicate a crop of 36 bushels, 80 one of 32, 70 one of 28 bushels.

For the reason that the normal, represented by 100 does not indicate a perfect or the largest possible crop, it may occasionally be exceeded. The condition may be so exceptionally favorable as to promise a crop that will exceed the normal, and it will accordingly have to be expressed by 105, 110, or whatever other figures may seem warranted by the facts; 105 representing 5 per cent. above the normal, 110 representing 10 per cent. above the normal, etc.

### Crops

See Corn, Cotton, Crop Reports, Movement of Crops, Wheat.

### Crossed Checks

A form of check not employed in the United States, but extensively used in England where it is recognized by law. Crossing is of two kinds, general and special. General crossing consists of drawing two parallel or transverse lines across the face of a check without the addition of any words. The words "and Company" or an abbreviation thereof, with or without the words "not negotiable" may be inserted between the lines but add nothing of significance. If the name of the bank or banker is added in a crossing, however, the check is crossed to the banker named, and is known as a special crossing.

When a check is crossed, generally the bank on which it is drawn may not pay it to any other party than to a bank, and when it is crossed specially, to no other than the banker specified in the crossing. The purpose of crossing is to prevent payment to wrongful holders and therefore to circumvent losses through forgery, since payment will not be made over the counter, but only by a deposit credit through a bank, even though the payee can establish his identity. A bank which pays a crossed check other than as specified is liable to the true owner.

### Crossing Trades

A transaction between brokers, prohibited by the rules of all exchanges, by which a

buying order of one is offset by a selling order of the other for the same unit of the same stock or commodity. Instead of the orders being executed on the exchange, the brokers effect a cross trade between themselves. One broker, for instance, might turn over a customer's trade, say a buying order, to a second broker in exchange for a selling order placed with the second broker, instead of both brokers executing these orders in the open market.

### Crown

This term has two meanings:

(1) An English silver coin equal to five shillings or one-quarter of a sovereign. Its equivalent in United States money is approximately \$1.216.

(2) The anglicised version of the Austro-Hungarian *Krone*, and the *Kroner* of Norway, Sweden and Denmark. (See *Krone* and *Kroner* under the subject *Foreign Moneys*.)

### Cum Dividend

An English term meaning with the dividend included as distinguished from *ex dividend*. The buyer of a stock *cum dividend* is entitled to receive the pending dividend.

### Cum Rights

With rights included. The buyer of stock "cum rights" is entitled to exercise whatever privilege such rights carry. (See *Rights*.)

### Cumulative Dividends

Dividends on cumulative preferred stock; dividends which if not paid regularly, or in full, *i. e.*, are in arrears, accumulate and if earned must be paid in the future, before dividends can be paid on common stock. The interest upon income bonds may also be accumulative. (See *Preferred Stock*.)

### Curator

A person, bank, or trust company appointed by a court to care for the estate of an incompetent or insane person under the court's direction. (See *Conservator*.)

### Curatorium

The governing board of the *Bank of Germany* (q. v.).

### Curb

A term applied to a stock market either originally or now carried on in the open



street. Curb markets were originally unorganized markets, but most of them are now organized. The function of a curb market is to furnish a place for trading in securities which are not listed upon the large stock exchanges, because they do not meet the tests of admission. In this sense, curb markets are secondary stock exchanges and provide a place where new, unseasoned securities (shares of companies in the prospective, development or early earning period) are bought and sold. The New York Curb Market is regarded as a trying-out place for securities, some of which are finally "graduated" and admitted to the New York Stock Exchange. On the Boston Curb which like the New York Curb is now housed, the principal listings are mining stocks. (See New York Curb Market.)

### Curb Broker

A broker who transacts business on a curb market. (See New York Curb Market.)

### Curb Market

See Curb, New York Curb Market.

### Currency

The quality of circulating freely; consequently, any form of money which serves as a medium of exchange and passes from bearer to bearer without indorsement.

Currency may consist of coins or paper money. United States currency consists of all kinds of metallic and paper money, but does not include checks, money orders, drafts, etc. (See Elastic Currency, United States Money.)

### Currency Act of 1900

See Gold Standard Act.

### Currency Bonds

Bonds, the principal and interest on which are by their terms payable in lawful, *i. e.*, legal tender, money of the United States, as distinguished from gold bonds which are payable in gold coin.

### Currency Designs

The designs which appear upon various kinds and denominations of coins and paper money, each of which is distinctive and intended to serve as a means of ready recognition, and to render counterfeiting difficult. The denominational portraits on the various kinds of paper money operate as the only means by which raised bills can be detected,

since each denomination for each kind of paper money bears a given engraved portrait. (See Denominational Portraits.)

### Currency Shipments

One of the functions of Federal Reserve and large city banks is to supply member (or correspondent) banks with suitable kinds and denominations of metallic and paper money. Currency shipments may be classified in five groups: paper money, coins, gold bars, five per cent. redemption fund orders, and orders for the transfer of money. Coins and currency are secured from Federal Reserve banks. Gold bars are purchased from an assay office, since they are not regularly kept as part of a bank's money stock. Five per cent. redemption fund orders are those received from correspondent National banks requesting the transmission of funds to the United States Treasury at Washington to make good a deficit which has arisen in the *Five Per Cent. Redemption Fund* (q. v.) required for redeeming outstanding circulating notes. In transferring funds, currency is shipped to a third bank for which the remitting bank reimburses itself by charging the account of the correspondent bank.

Shipments may be made by express or registered mail, depending upon the most economical method. Owing to the fact that the maximum amount recoverable on a lost registered package is \$50, additional insurance must be procured when amounts in excess of \$50 are so forwarded. Cost of shipment is usually borne by the consignee bank.

Federal Reserve banks, having taken over the sub-treasuries since June 30, 1921, now perform all sub-treasury functions, including that of providing supplies of coin and currency in proper denominations to member banks. These supplies are shipped without charge for express and insurance costs. Likewise, when member banks have excess supplies of cash on hand they are shipped to the Federal Reserve bank of the district, the latter bearing the costs.

### Current Account

Same as open, continuing, and running account. (See Open Account.)

### Current Assets

Cash or other assets "which in the ordinary course of business *will* be converted into cash,"\* *e. g.*, raw materials, finished goods, accounts receivable, notes receivable, etc. They are also known as quick, floating,

fluid, and circulating assets. In analyzing statements for credit purposes, the proportion between the current assets and current liabilities, known as the current ratio, is one of the most important tests of a credit risk. (See Current Ratio, Statement Analysis.)

### Current Liabilities

Liabilities currently maturing; liabilities which must be paid within a short time, usually one year, as distinguished from *Fixed Liabilities* (q. v.).

### Current Ratio

The ratio of current assets to current liabilities which is one of the credit barometrics applied to test a financial statement submitted by a prospective borrower.

Among credit men of the old school it has always been a rule-of-thumb formula that the applicant for credit should show at least a two for one ratio between current assets and current liabilities on his financial statement. This excess of current assets is required because the lending bank, for purposes of safety, must not only regard the prospective borrower as a going concern, but also as a liquidated one. In case a business should be forced into liquidation and compelled to realize upon its current assets at forced sale, such assets would almost certainly shrink in value, while the liabilities would remain constant or even increase if contingent liabilities existed and suddenly became primary liabilities. With a two to one ratio, current assets could shrink by 50 per cent. and still be sufficient to liquidate the current liabilities. This ratio has been used because experience has shown that current assets do not usually shrink by 50 per cent. under forced liquidation, and that therefore current assets would normally be more than sufficient to pay off current liabilities, thereby leaving a margin as a factor of safety.

The two for one formula, while safe in most cases, and practical because of its simplicity, is not scientific because it does not take into consideration other significant relations, *e. g.*, variation in business types, merchandise turnover, terms of credit, territory served, and seasonal influences. Businesses having a rapid turnover, *e. g.*, grocery trade, may have a current ratio considerably less than two for one and still represent a better credit risk than a furniture dealer having a full two for one ratio. In

the grocery trade there is a rapid turnover of merchandise for which the demand is universal so that in the event of liquidation the business would not suffer an appreciable loss through decline in value of its inventories. In the furniture business, however, a two for one ratio might not be satisfactory, since the turnover is less rapid and the shrinkage in value in the event of liquidation would be more severe. For this reason modern credit men recognize that the current ratio standing alone is not satisfactory as a credit test, but should be considered in relation to other tests given under the subject *Credit Barometrics* (q. v.), and discussed under the subject *Statement Analysis* (q. v.).

### Custodianships

A name given to a relatively modern facility offered by the larger banks and trust companies to their customers, *viz.*, the safe keeping, and accounting for under instructions, of valuable, and usually income-bearing, personal property. Custodianship accounts are also known as safe-keeping, agency, and "financial secretary" accounts.

A custodianship involves the following: (1) to keep the property intact; (2) to collect the income—interest, dividends, rents, etc.—and disburse it in accordance with instructions; (3) to redeem bonds called at or before maturity and disburse proceeds according to instructions; (4) to receive rights which may accrue on stocks; and (5) to transmit instructions for purchase and sale of securities through a broker.

A custodianship account differs from a safe deposit account in that in the former the customer's property is kept under control of the bank but always subject to the customer's orders; whereas in the latter, the property is held entirely under the control of the renter of the safe deposit box. It differs from a voluntary trust in that in a custodianship the bank or trust company acts as agent, whereas in the latter it acts as trustee. As agent the bank or trust company is responsible for the safekeeping of the property, but as trustee it is responsible for maintaining the value of the property.

The advantages of a custodianship over a safe deposit box are: (1) in addition to protection provided by the vault, the customer has a receipt of the bank or trust company for the property, which clearly sets forth what has been deposited; (2) income is collected promptly, whereas if securities are deposited in a safe deposit box, col-

\*H. D. Greeley: *Theory of Accounts*, p. 65 (Volume I of *Business Accounting*).

lection is frequently delayed; (3) orders to buy and sell securities may be left for execution; and (4) financial advice is always available and customers are automatically advised of the calling of bonds, the right to convert bonds into stocks and to subscribe to new issues, the privilege of selling to sinking funds; the increasing, reduction, or passing of dividends, the reorganization, recapitalization, or merger plans of the respective companies whose securities are held; and of any fact pertinent to the investments. (See Customers' Securities Department, Safe Deposit Company.)

### Customers' Liability

An account appearing in a bank general ledger or financial statement as an offset to outstanding letters of credit guaranteed but not paid. This account is an asset arising from the fact that recourse may be had against customers who may fail to fulfill the obligations which they guarantee to fulfill when letters of credit are issued to them. When a bank issues a letter of credit the customer pledges to guarantee payment of all drafts drawn thereunder. In case payment is not made at maturity according to such guaranty, the bank has recourse against the customer and has the right to attach any property that he has in the bank, including deposits, securities, or other collateral, and to start an action at law to recover any balance still remaining. (See Letters of Credit.)

### Customers' Room

A room in a broker's establishment, *i. e.*, commission house, for the convenience of customers. Its chief feature is a board upon which quotations from various exchanges are posted as soon as they are printed on the tickers. (See Board.)

### Customers' Securities Department

The department of a bank or trust company which assumes custodianship of securities and other valuables belonging to its customers. Institutions undertaking to render these facilities offer to provide the same care in protecting customers' securities as they do their own. The customers' securities department becomes a bailee, and not only assumes custodianship of customers' securi-

ties, but may receive orders to buy and sell securities in the open market. These are transmitted for execution by a regular broker.

This department also sometimes performs such services as transferring stock, exchanging temporary securities for permanent or definitive securities, and of holding securities for safe keeping while awaiting instructions of customers. Matured coupons are detached from bonds and credited to the account of customers or checks are remitted. These services may be rendered gratuitously or for a fee. (See Custodianships, Safe Deposit Company.)

### Custom House

An office established by the Federal Government at each of the principal ports and border cities where importers declare the amount or value of imported merchandise, and where customs duties are levied and paid. Vessels bound to and from foreign ports are entered and cleared by the custom house officials, who must be notified of its arrival or intended departure. No imported merchandise can leave a steamship pier until it has been examined by the custom officers.

The tax levied and collected upon imports by Custom House officials in accordance with the tariff laws.

### Customs Duty

The tax levied and collected by Custom House officials in accordance with the tariff laws upon imports.

### Customs Ports

Ports where ships carrying import cargoes enter. The principal 25 customs ports in the United States in order of their importance (for 1922), based on tonnage loaded and discharged, are: New York, New Orleans, Baltimore, Philadelphia, Port Arthur, Galveston, Baton Rouge, Boston, Norfolk, San Francisco, Portland, Ore., Seattle, Newport News, Fall River, Portland, Me., Texas City, Tacoma, Mobile, Sabine, Tampa, Los Angeles, Perth Amboy, Beaumont, Savannah, and Houston.

### Cutting a Melon

See Melon.



## D

### Daily Balances

See Average Loan and Balance File, Interest Balance.

### Dairy Loans

See Cattle Loans.

### Date

The indicated day, month and year, on which an instrument is drawn. The validity and negotiable character of a check, note, draft or other negotiable instrument is not affected by the fact that it is not dated. When a time instrument is undated any holder may insert the true date of issue or acceptance. Otherwise where an instrument is not dated it is considered to be dated as of the time it was issued.

Post-dated checks, *i. e.*, checks dated ahead, are not payable until the due date. A bank has authority to pay a check only when it is dated as of the day of presentation or a date antecedent thereto. Where the date is missing, it may be inserted and paid. Stale checks, *i. e.*, checks more than six months old, usually should not be paid by a bank without consulting the drawer. It is intended that checks should be presented for payment within a reasonable time after their issue.

Notes should not be dated on a holiday. If a note matures on a Sunday or holiday, according to the Negotiable Instruments Law, it becomes payable the next succeeding business day. A few states have modified this provision to make such notes payable on the preceding business day. (See Negotiable Instruments Law, Art. 2.)

### Dating

See Time to Run.

### Day Loans

Loans made to Stock Exchange brokers without security, but only for a day as a means of circumventing *Overcertification* (q. v.), which is unlawful. The occasion for making day loans may be illustrated as follows: Suppose a broker has orders to buy 1,000 shares of stock and needs \$100,000 in cash to finance the transaction. Having no such sum of money as capital nor securi-

ties to serve as collateral, he may secure a temporary or day loan, provided his credit standing is of the highest type, with the understanding that as soon as the securities are purchased they will be deposited as a pledge to secure a regular call loan. In other words, the day loan is granted as an expedient to finance the broker during the short interval between the time he purchases the securities and their actual delivery. Such a loan is also known as a *clearance loan* or *morning credit*. When the loan is made the broker's account is credited, but later in the day, after the broker has had an opportunity to make deposits sufficient to cover the amount borrowed in the morning, the entry is reversed, and the account charged.

### Day Order

An order good for the day only; an order placed with a broker for execution on the day it is given, after which it is automatically canceled. (See Orders.)

### Days' Date

See Draft.

### Days of Grace

A privilege to defer payment of a note, acceptance, draft or other time instrument after the indicated maturity for a number of days. Three days of grace are allowed in England and formerly in the United States. By the Negotiable Instruments Law, "every negotiable instrument is payable at the time fixed therein without grace." No state has modified this provision except for domestic sight drafts payable in Massachusetts, New Hampshire and North Carolina.

In foreign bills of exchange one to five days of grace are allowed on sight, and short and long bills. (See Negotiable Instruments Act, Art. 7, Sec. 145.)

### Day-to-Day Loan

An English equivalent for call loan in the United States.

### Dead Assets

Unproductive assets; assets which produce no income, *e. g.*, waste land, or a mag-

nificent railroad terminal, the cost of which is out of proportion to its income.

### Deal

An expression sometimes used in finance to indicate a large transaction which involves a change in ownership usually arranged without general public knowledge, *e. g.*, a traction deal, railroad deal, or deal in some other property.

### Dear Money

Money obtainable only at high interest rates.

### Debasement

Reduction in the purity of the metal forming the coinage of a country from its original or standard fineness. One of the purposes of Government coinage is to insure maintenance of purity of its coins. Coins may be debased by individuals, but ordinarily the term refers to the former practice of Governments in taking a part of the pure metal out of its coins and replacing it with a baser metal. No civilized commercial country has debased its coinage in modern times, knowing that the results of debasement are disastrous upon business by undermining confidence, causing high or fluctuating prices, unstable conditions, etc. The ceremony in England known as the "Trial of the Pyx" is established by law for the purpose of insuring the maintenance of purity of the standard coin. (See Trial of the Pyx.)

### Debenture

A synonym for debt. This word is a class term for all forms of unsecured, long-term debt, whether for corporate or civil (government, state or municipal) obligations, although it is usually applied to a certificate of debt issued by a corporation.

In England debentures are often secured by real estate mortgages, but in the United States are secured only by the assets and the general credit of the obligor. The term is usually used in connection with bonds or stock. (See Debenture Bonds, Debenture Stock.)

### Debenture Bonds

Bonds without any security other than the general assets and credit of the issuer. Government, state and municipal bonds, *i. e.*, all civil bonds, are by definition debenture bonds since they are not secured by mort-

gages or any other specific pledge of assets. Notwithstanding this fact, civil bonds represent the highest class of investments because their payment rests upon the taxing power and general credit.

Debenture bonds issued by corporations are, as a class, not considered high-grade investments, although where the general credit of the issuer is strong, they may command a high position. Their strength depends upon the equity in the general assets, the extent of bond issues having prior liens, range of fluctuation of earnings, and margin of average earnings over prior charges. Debenture bonds are sometimes known as plain bonds.

### Debenture Income Bonds

Income bonds not secured by a mortgage or other specific pledge of assets. (See Income Bonds.)

### Debenture Stock

A term infrequently used in American finance which usually applies to a special type of stock conferring rights superior to both preferred and common stocks, *e. g.*, General Motors Corporation debenture stock. This stock is in the nature of a prior preference or first preferred stock.

In England debenture stock is equivalent to debenture bonds in America.

### Debit Balance

The excess of debits over credits in an account. In a bank account a debit balance occurs when it is overdrawn. In a brokerage account a debit balance indicates the amount of the broker's loan to the customer, and which the customer would have to pay in order to take up his securities.

### Debit Ticket

A posting medium used in banking and brokerage bookkeeping to secure the posting of a transaction occurring in a certain department to the customers' or general ledger. It carries a complete description of the transaction and is preserved for future reference.

### Debt

A pecuniary obligation of a debtor; a sum of money one party owes to another as a result of a transaction in which value has passed to the debtor, as evidenced by verbal or written contract or agreement. A note or bond is *prima facie* evidence of a debt, but an open book account is not. In an action

at law, the latter must be supported by an original record of the transaction, *e. g.*, invoice, delivery slip, etc.

### Debtee

One to whom money or other value is owing.

### Debt Limit

See Municipal Bonds.

### Debtor

One who owes money or other value, whether an open account or evidence by note, bond, or otherwise. Debtors may be classified as individual, corporate or civil (Government, state, county, municipal, etc.).

### Debtor Bank

An expression used to indicate a bank which is debtor to the clearing house. (See Clearing House.)

### Decedent

A deceased person. A term used in connection with inheritance, estates, wills, etc. A decedent who has made no will is called an intestate decedent; one who has made a will, a testator.

### Decentralized Reserve System

See Federal Reserve System.

### Decimal Coinage

A coinage system in which the denominations of the principal coins are decimals of the monetary unit and the denominations of all coins and paper money are even fractional parts or multiples of the unit of value. In the United States, the dollar is the monetary unit; a dime the tenth part; a cent the hundredth part; and a mill the thousandth part, each being one-tenth of the previous unit in the series. Likewise the eagle is ten times the value of a dollar.

The advantages of the decimal system are obvious as a convenience in making money calculations. Most of the monetary systems of the world are decimal systems, England being the only great nation without it.

### Decimal Currency

The currency of nations using the *Decimal Coinage* (q. v.).

### Declaration of Dividends

Dividends on stock cannot be paid unless and until declared. Power to declare divi-

dends rests solely with a corporation's board of directors, which determines the amount and date of the disbursement. (See Dividend.)

### Decline

A term used in connection with securities and commodities to indicate a decrease or lowering of prices. Other terms employed to suggest the same meaning, either with greater or less intensity, are fall, sag, react, soften, slump, weaken, recede, drop, retreat, slip, sell off, shade off, toboggan, and break.

### Deed

In general, any instrument "signed, sealed and delivered," as the act and deed of its maker. In business, however, the term usually refers to a written instrument to convey real property, *i. e.*, to transfer its title from the seller to the buyer. There are two ordinary types of deeds, quit-claim and warranty. The person who gives a quit-claim deed gives up his own claim and rights and interest in the property conveyed without responsibility as to whether the title is perfect or imperfect; he conveys no better title than he himself possesses. On the other hand, the person who gives a warranty deed guarantees a perfect title, and in case subsequent defects appear the purchaser is entitled to recover any loss that he may thereby sustain.

### Deed of Assignment

A written instrument which appoints an assignee, usually a trust company, to take charge of the affairs of an insolvent business, and which prescribes the powers and duties of such *Assignee* (q. v.).

### Deed of Trust

An indenture or mortgage indenture; a written or printed instrument (mortgage) in which the title to the therein described property is conveyed to a trustee, personal or corporate, who holds the property in trust for and on behalf of others, usually holders of bonds secured by the mortgage. It is a contract involving the issuing corporation (grantor and mortgagor), the trustee for the bondholders (mortgagee), and the bondholders themselves.

A deed of trust is a comprehensive and complicated instrument, and describes (1) the duties, responsibilities and compensation of the trustee; (2) the transfer of the title to the mortgaged property to the trustee;



(3) the details of the mortgaged property; (4) the covenants of the mortgagor to pay the principal and interest on the bonds, and to maintain the mortgaged property in good condition, and (5) the procedure of the trustee in case of default.

### Defaced Coins

Metallic coins which have been mutilated by clipping, sweating, cutting, punching, or otherwise. Ordinary wear and tear or abrasion is not defacement. (See Abrasion, Mutilated Currency, Sweating.)

### Defalcation

The fraudulent appropriation or abstraction of money or property entrusted to a person by reason of his employment, or held in trust by such person; *Embezzlement* (q. v.).

### Default

Failure to perform an engagement or to meet an obligation, and particularly applying to the failure to pay a bond or note at maturity or the interest due thereon at the stipulated interest date. Default in payment of the principal or interest on mortgage bonds, or in setting aside sinking fund installments, gives the bondholders right to institute foreclosure proceedings, and wherever default occurs in any corporate bonds, whether secured or unsecured, the right to apply for a receivership. One who fails to meet a contractual obligation to pay money is a defaulter. (See Repudiation.)

### Defaulted Bonds (Notes)

See Default.

### Defaulter

See Default.

### Deferred Annuity

See Annuity.

### Deferred Availability Items

A name given to an account appearing in the weekly Federal Reserve Bank Statement to indicate the liability offset to "Uncollected Items" listed among the assets. Uncollected items represent the amount of checks in process of collection for member and clearing member banks by the Federal Reserve banks, *i. e.*, checks in transit and in the process of becoming converted into cash. Uncollected items are contingent assets, while

the deferred availability items are contingent liabilities. (See Federal Reserve Statement, Federal Reserve Check Collection System.)

### Deferred Bonds

Bonds upon which the payment of interest is postponed until some condition with respect to earnings has been fulfilled, or upon which the interest periodically increases to a maximum rate, after which it remains uniform.

When the payment of the principal of bonds is deferred without changing the status of its underlying collateral, the issue is said to be extended. (See Extended Bonds.)

### Deferred Dividends

Dividends on stock which are postponed until a fixed time has elapsed, or until a certain event has occurred. (See Deferred Stock.)

### Deferred Interest

This term has two meanings:

(1) Interest, the payment of which is postponed. When bonds are sold at a discount the amount of the discount represents what the investing public demands in the way of additional interest over the periodic cash or coupon interest to pay for the added risk involved in view of prevailing rates. While from the standpoint of the investor, this represents interest paid in advance, from the standpoint of the issuing organization it represents deferred interest. For instance, if an issue of \$100,000 of bonds is sold at 5 per cent. discount, the issuing organization receives only \$95,000. At maturity, however, the issuing organization must pay the bondholders \$100,000. The difference, or \$5,000, represents a deferred interest or additional borrowing cost, which must be accumulated evenly over the life of the bonds. (See Amortization.)

(2) The delay in crediting out-of-town (transit) checks deposited by customers having accounts with interest-bearing balances for interest purposes for the number of days required to collect them. (See Interest Balance.)

### Deferred Payments

Payments to be made in the future. All credit transactions, and time credit instruments involve deferred payments, *e. g.*, bonds and notes. One of the functions of money is to serve as a standard of deferred pay-

ments, and as such should possess stability of value. (See Money.)

### Deferred Shares

See Deferred Stock.

### Deferred Stock

Stock, dividends on which are not payable until the expiration of a fixed time, or until some certain event has occurred. In England deferred stock ranks behind ordinary stock (the English equivalent for the American common stock), and occupies the same position with regard to ordinary stock as the latter to preference stock. *Founders' Shares* (q. v.) is a special type of deferred stock.

### Deficient Reserves

See Reserve, Taxes.

### Deficit

Excess of liabilities over assets; the reverse of capital or net worth. The term is sometimes improperly used as synonymous with "loss" which means an excess of expense over income during a period of time. Deficit should be reserved to refer to a condition at a fixed moment of time.

### Definitive Bond (Certificate)

A permanent engraved bond (or certificate) given in exchange for a temporary or interim receipt or certificate. On account of the time required to prepare engraved bonds, it is often necessary when bonds are marketed to issue temporary receipts or certificates. Temporary certificates are then exchangeable for permanent engraved bonds when issued and ready for delivery. (See Interim Certificates.)

### Deflation

The opposite of inflation. A period or phase of the business cycle characterized by emergency liquidation, abnormal falling prices of securities and representative staple commodities, contraction of bank loans, and decrease in bank clearings, bank deposits, volume of currency, production and employment. (See Business Cycle.)

### Defunct Company

One that has ceased to exist; a dissolved company.

### Deliveries

Deliveries of securities purchased upon the New York Stock Exchange must be made

in accordance with the rules of the exchange. These vary according to the method of trading. If securities are purchased "for cash" they must be delivered not later than 2.15 P. M. of the same day, or 11.30 A. M., if a half-holiday. If purchased in the regular way, deliveries must be made before 2.15 P. M. on the following business day, no deliveries being made on Saturday. In case of failure to make delivery, the purchaser's broker may buy the undelivered securities *Under the Rule* (q. v.). On the other hand, if delivery is not made in accordance with the rules, *e. g.*, after hours, the purchaser's broker may refuse to accept until the following day and the seller cannot claim interest for the extended time. (See Good Delivery, Methods of Trading, Stock Transfers.)

### Delivery Day

In trading in commodity futures, the delivery day is usually considered to be the first trading or business day of the month in which the future contract matures. Ordinarily, however, the exchange authorities determine and publish the dates for each month's deliveries. For instance, the dates for December deliveries may begin November 29th and last until December 15th, thereby permitting the purchaser to call for delivery of December's contracts at any time within that period. In the case of sellers' options, delivery may be made on any business day of the month for which the sale was made.

### Demand Bills

Sight or presentation bills. (See Bill of Exchange.)

### Demand Certificate of Deposit

See Certificate of Deposit.

### Demand Deposits

Demand deposits are defined by the Federal Reserve Board and by the banking laws of the various states to be those payable within 30 days. Demand deposits are those subject to check and which may be withdrawn by the depositor immediately and without notice of intended withdrawal. The great body of demand deposits are commercial deposits and are held by commercial banks. (See Deposits.)

### Demand Draft

See Draft.

**Demand Loan**

See Call Loan.

**Demand Sterling**

Sight bills of exchange drawn in pounds principally on banks in London, but also on banks at other points in England. (See Sterling, Sterling Exchange.)

**Demonetization**

To take away from a metal the power of acting as monetary standard, *i. e.*, to strip it of free coinage and full legal tender powers; to relegate a coin serving as standard money to serve as token money. In the United States silver was demonetized by the Act of 1873, known as the *Crime of 1873* (q. v.), *i. e.*, its quality as standard money was discontinued and although it retained its full legal tender qualities, it was not freely coined. After 1873 silver was coined on government account in large quantities under the *Bland Allison Act* (q. v.) and the *Sherman Silver-Purchase Act* (q. v.), both of which were subsequently repealed. While the Act of 1873 practically demonetized silver, the *Gold Standard Act of 1900* (q. v.) definitely and formally demonetized silver by reducing the silver dollar to the position of token money and making gold the standard money. (See Standard Money.)

**Demonstration**

A sharp advance or sudden display of activity in a stock or group of stocks, usually factitious and conducted by some individual, clique or pool for the purpose of attracting speculative attention.

**Demonstrative Legacy**

See Legacy.

**Demurrage**

Literally a charge for delaying. A charge made for the loss of time in detaining or stopping a freight car on a side track, or a vessel at a pier for loading or unloading beyond the specified period permitted by the carrier.

**Denomination**

The face value of a bond, note, coupon, coin, paper money, etc. When applied to stocks, it denotes the number of shares per certificate. Bonds usually bear \$1,000 denominations, although they frequently occur in denominations of \$500 and \$100. Govern-

ment bonds are sometimes issued in larger denominations, *e. g.*, \$10,000, and as high as \$50,000. The denominations of coupons vary according to the interest rate of the relative bonds and the interest period.

The denomination of stock certificates is usually 100 shares. When issued in smaller amounts they are known as fractional certificates. The denominations of the various kinds of metallic and paper money are indicated under *United States Money* (q. v.).

**Denominational Portraits**

The portraits which appear upon each denomination of the various kinds of United States paper money. Each kind of paper money carries a series of portraits, by reference to which raised bills may be readily detected. Paying tellers, receiving tellers, money clerks and others, whose duty it is to guard against accepting raised bills, should have a thorough knowledge of denominational portraits, a schedule of which in chart form is presented on the page following.

At the present time the Treasury Department has under consideration the revision and improvement of paper currency designs. The purpose in view is to insure the highest possible degree of protection against note-raising and to secure economy in printing. It is expected that the Secretary of the Treasury will ultimately prescribe that future reissues of all kinds of United States paper money bear the same denominational portraits which now appear on Federal Reserve notes and Federal Reserve bank notes. It is to be presumed that changes will be made gradually and in the course of regular business and that no attempt will be made to discontinue old issues until their replacement becomes necessary by being sent to Washington for reissue when they have become unfit for circulation.

When this regulation becomes effective the portraits of Washington will appear upon all \$1 bills, Jefferson on \$2, Lincoln on \$5, Jackson on \$10, Cleveland on \$20, Grant on \$50, Franklin on \$100, Marshall on \$500, Hamilton on \$1,000, Madison on \$5,000 and Chase on \$10,000. Such a standardization of portraits will certainly be a boon to paying tellers and money clerks, by making the process of detecting raised notes relatively simple.

**Depletion**

The tendency to exhaustion of the assets of an extractive industry, *e. g.*, mining, quarrying, oil, forestry. As coal or ore is taken



out of a mine or oil is taken out of a well, the supply is reduced and progressively approaches the exhaustion point. Oftentimes a charge is made on the books of extractive industries to provide for depletion of its assets so that when the exhaustion point is reached there will be funds on hand suffi-

are not made, should regard dividends upon their stock as a return, not only on investment but also as a partial return of investment. (See Wasting Assets.)

**Deposit**

See Deposits.

Denominations	Silver Certificate	Gold Certificate	United States Note	Federal Reserve Note	Federal Reserve Bank Note	National Bank Note
\$1	Lincoln Grant	—	Washington	—	Washington	—
2	Washington	—	Jefferson	—	Jefferson	—
5	Indian Chief	—	Jackson	Lincoln	Lincoln	Harrison (Garfield)
10	T. A. Hendricks	Michael Hilligas	Lewis and Clark	Jackson	Jackson	McKinley
20	Daniel Manning	Washington	Hamilton	Cleveland	Cleveland	Hugh McCulloch
50	Edward Everett	Grant	Franklin (Clay)	Grant	Grant	John Sherman
100	Monroe	Benton	Lincoln	Franklin	Franklin	John Jay Knox
500	Sumner	Lincoln	J. K. Mansfield (J. Q. Adams)	John Marshall	John Marshall	—
1000	Marcy	Hamilton	DeWitt Clinton	Hamilton	Hamilton	—
5000	—	Madison	Madison	Madison	—	—
10,000	—	Jackson	Jackson	Salmon P. Chase	—	—

DENOMINATIONAL PORTRAITS APPEARING ON EACH KIND OF UNITED STATES PAPER MONEY

cient to pay the stockholders or owners in full. This involves an estimate of ore (or oil) reserves upon which even leading geologists and mining engineers often go astray. Because of the difficulty in estimating these reserves, some businesses make no attempt to provide for depletion, and accordingly no depletion charges are made. Investors or speculators in mining, oil and coal securities should determine whether accounting provision for depletion has been provided. Holders of such stock, in case depletion charges

**Depository**

A term with the same meaning as and used interchangeably with *Depository* (q. v.).

**Deposit Banking**

That part of commercial banking which embraces the receiving of deposits, paying them out by check, collecting checks on other banks, etc.

**Deposit Book**

Same as *Pass Book* (q. v.).

### Deposit Currency

Checks and other credit instruments deposited with a bank as the equivalent of cash. Deposit currency is a term used to describe the character and composition of the major proportion of a bank's deposits, which consist of checks, money orders, drafts, matured acceptances, matured coupons, etc., rather than actual money. Approximately 90 per cent. of the business transactions in the United States are settled by means of deposit currency. It is the only perfectly elastic currency automatically expanding and contracting with the requirements of business—expanding with business activity and high prices, and contracting with inactivity and low prices. (See Credit Instruments, Elastic Currency.)

### Deposit Interest Rate

The rate of interest which a bank allows upon deposits. For commercial or demand deposits the rate varies with lending rates and is primarily affected by open market rates for commercial paper and bankers acceptances, by the Federal Reserve rate of rediscount, and secondarily by time and call money rates. Interest on time and savings deposits is less subject to fluctuation, but rarely exceeds 4 per cent. National banks usually pay no more than 3 per cent.

Due to the competition for deposits banks strive to offer as high a rate on deposits as they can and still make a profit. This competition has been so fierce in the past that various clearing house associations for the purpose of protecting its members have limited the amount of interest which its member banks may pay. Just how this limitation is based is best explained by Article 11, Section 1, of the Constitution of the New York Clearing House Association, as follows:

"No member of this association, or bank or trust company or others clearing through any member, shall agree to pay, or shall pay, directly or indirectly, on any credit balance payable on demand or within thirty days, or certificate of deposit so payable, by its terms, issued to or for the account of any bank (other than a mutual savings bank located in the Second Federal Reserve District), trust company or other institution conducting a banking business, or private banker or bankers, located in the United States or Dominion of Canada, interest at a rate in excess of one per cent. per annum when the then ninety-day discount rate for commercial paper at the Federal Reserve

bank of New York is two per cent. or less, and an additional one-fourth of one per cent. for every one-half of one per cent. that such discount rate of the Federal Reserve bank shall exceed two per cent., except that the maximum rate paid or agreed to be paid on any such credit balance or certificate of deposit shall not in any case be higher than three per cent. per annum; nor shall any member, or non-member clearing through a member, pay or agree to pay on any like credit balance of, or like certificate of deposit issued to, any mutual savings bank located in the Second Federal Reserve District or any person, persons, co-partnership, corporation or association, other than those specified and included above, interest at a higher rate than three per cent. per annum; nor on any time deposit, or certificate of deposit payable by its terms later than thirty days from the date thereof, at a higher rate than three and one-half per cent. per annum. The foregoing provisions are not intended to apply to the account of, or any certificate of deposit issued to, any person or persons residing and transacting business in any foreign country other than the Dominion of Canada, or to any corporation, association or co-partnership organized and located therein, nor to affect such interest rates as are or may be fixed or regulated by law."

### Deposit Liability (Liabilities)

The aggregate liability of a bank to its depositors represented by its combined demand, time and Government deposits, including certificates of deposit. The deposit liabilities of a bank are the largest of all liabilities, but should not exceed twelve times the combined capital stock, surplus and undivided profits, if the principles of sound banking practice are observed.

### Deposit Line

The average balance to the credit of a depositor's account in a bank over a given period; the average balance of deposits. This is useful in determining the profitability of an account and in fixing the *Line of Credit* (q. v.). (See Average Loan and Balance File, Twenty Per Cent. Rule.)

### Deposit Loan

A loan which is created by giving the borrower a credit in his deposit account against which checks may be drawn as required.

## Depositor

One who has a bank account; one who has funds deposited to the credit of his account in a bank. (See Deposits.)

## Depository

A bank which is designated and authorized to accept deposits of funds belonging to the Federal Government, or other governmentalities (state, county, city, etc.), court funds, trust funds, or from other banks which the latter are required by law to maintain as reserve against deposits. A bank authorized to receive Government funds is called a Government depository; if authorized to receive state funds, a state depository; if authorized to receive trust funds, a depository for trust funds, etc. A bank authorized to receive the reserve, or portion thereof, of other banks is known as a *Reserve Depository* (q.v.).

The Federal Reserve Act confers upon the Secretary of the Treasury the right to use Federal Reserve banks, or member banks, as Government depositories. The twelve Federal Reserve banks were appointed to act as Government depositories and fiscal agents of the Government by the Secretary of the Treasury, effective January 1, 1916. The operations of the sub-treasuries of the United States as a part of the fiscal system were required to terminate on June 30, 1921, by an Act of Congress. The sub-treasuries are now operated as a part of the Federal Reserve banks. Member banks may also be designated as Government depositories and to act as Government fiscal agents, at the discretion of the Secretary of the Treasury, and are, to some extent, used in that capacity, although the vast majority of Government funds are deposited with the Federal Reserve banks. Non-member banks are not eligible to act as depositories except under certain conditions to receive postal savings deposits. Banks holding deposits of the United States and the lesser governmentalities are required to pledge certain required bonds as security therefor.

In New York, state banks and trust companies must be first designated and authorized by the State Comptroller before they are eligible to receive court funds. For this purpose a surety bond is required. Any bank meeting the requirements of the law is eligible to receive trust funds, which are usually required to be segregated from the strictly banking assets.

## Deposit Rate

See Deposit Interest Rate.

## Deposit Slip

A slip upon which the details of a deposit are listed and which accompanies the deposit when handed to the receiving teller. The deposit slip is an original entry record. It is the posting medium through which the amount of the relative deposit is credited to the depositor's account in the bank's ledger. It should be made out by the depositor in each instance, and if incorrect, the depositor should be required to submit a correct one to take its place. It is non-negotiable. If a deposit is made without the pass book a duplicate deposit slip so stamped may be made out at the same time for the convenience of the depositor.

A deposit slip "is an original entry in the eyes of the law and an important document. It is the bank's record of what the depositor offers for deposit. . . . They often become exceedingly valuable for reference in case differences and misunderstandings occur as to credit dealings with depositors."\* Deposit slips should be retained by the bank at least until the next statement is reconciled. Some banks keep them longer, and still others, indefinitely.

## Deposits

Balances due to depositors of a bank; funds credited to the accounts of depositors. Deposits may be broadly classified into general, specific and special.

General deposits consist of money or *Deposit Currency* (q.v.). Wherever deposits are of this character the relation between the bank and depositor is that of debtor and creditor. The bank becomes the owner of the deposit. The depositor has a claim against the bank for the amount deposited. All deposits are mingled together and become indistinguishable. The bank is in no wise bound to return the identical deposit of cash, inasmuch as it is not a *Bailee* (q.v.), as it is in the case of special deposits. Should a National bank fail, the general depositor becomes a general creditor and shares in the liquidating assets available for distribution proportionately with the other general creditors. The same provisions hold good in the case of state banks in most jurisdictions, although in a few states depositors in state banks have a claim prior to other creditors.

Specific deposits are those made for a specific purpose in which the bank acts as bailee,

\*W. H. Kniffin: *The Practical Work of a Bank*, p. 69.



*e. g.*, money left to discharge a note, or to purchase securities.

Special deposits consist of property other than money, *e. g.*, bonds, stocks, notes, life insurance policies and other valuable papers, jewelry, silverware, plate, etc., left with a bank as custodian for safe-keeping and in which title remains with the depositor. Here the relationship between the bank and depositor is that of bailee and bailor. Special deposits never become the assets of the bank, and in case of failure are not applicable to the extinguishment of liabilities, but must be returned intact to depositors. Special deposits are taken under a contract of bailment, and many banks not equipped with safe deposit vaults, provide custodianship for the valuables of their depositors, giving them the same care as their own securities, but without further liability, either for a compensation or gratuitously. (See Custodianships, Customers' Securities Department, Safe Deposit Company.)

Deposits are also classified as *Demand Deposits* (q. v.) and *Time Deposits* (q. v.); as *Commercial Deposits* (q. v.), savings deposits, *Government Deposits* (q. v.), *Postal Savings Deposits* (q. v.); and as *Individual Deposits* (q. v.) and bank deposits. Individual deposits are subdivisible into *Alternate Deposits* (q. v.) and *Joint Deposits* (q. v.).

General deposits may be sub-classified as shown in the table below:

Kind of Deposit	Evidence of Receipt	Whether Interest-Bearing	Whether Subject to Check	Reserve Required for Nat'l Bank
Demand deposits, individual and bank	Pass Book or duplicate deposit slip	With or without interest	Yes	7%, 10%, or 13%
Time deposits	Pass Book	Usually up to 3%	No	3%
Saving deposits	Pass Book	Usually up to 4%	No	None
Government deposits, etc.	Pass Book or duplicate deposit slip	With or without interest	Yes	None (Fully Secured)
Court Funds	Ditto	Ditto	Yes	Ditto

#### CLASSIFICATION OF GENERAL DEPOSITS

(See Certificate of Deposit, Deposit Interest Rate, Depository, Deposit Slip, Pass Book, Savings Accounts, Signatures, Unclaimed Balances.)

#### Deposit Ticket

Same as *Deposit Slip* (q. v.).

#### Depreciated Currency

Currency not accepted at its face or par value, either because it is not redeemable in standard money, or because redemption in standard or lawful money is suspended or refused. Suspension of redemption of paper money may be the inevitable result of the depletion of the gold reserves of a country, as illustrated by the case of the currencies of the belligerent European nations after the World War. The depreciation of United States notes or "greenbacks" during the Civil War and until 1879 was primarily due to the suspension of specie payments coupled with over-issue.

#### Depreciation

An accounting term to denote the shrinkage in value of an asset due to (1) physical deterioration or wear and tear; (2) obsolescence; and (3) sudden decline in market price or commercial value. The term also refers to an operating charge made to provide for the ultimate replacement of an asset at the termination of its service life, or to offset its decline in value if it is not to be replaced.

#### Depression

A protracted period of business dullness when activity is below normal; that phase of a business cycle which follows a crisis

and period of emergency liquidation, and characterized by a drastic curtailment of production, contraction of bank credit, business inactivity, falling or bottom prices and efforts to "feel for the bottom" in the price movement, widespread unemployment, high rate of business failures, general unsettlement, etc. (See Business Cycle.)

### Derivative Deposits

Deposits created out of a loan in which no cash or its equivalent, *e. g.*, *Deposit Currency* (q. v.) is deposited. Among commercial banks deposits are frequently created by lending a customer a sum not in money but by a credit to his account against which he may draw checks as he needs it.

### Development Stage

A term used to denote the beginning or early period in the life of an industry, as when its plant is being erected, or prior to placing its product on the market. The securities of a company in this stage are purely speculative since they represent an enterprise which is unseasoned and not yet proved to be a success.

### Development Work

The initial efforts in establishing a new enterprise. (See Development Stage.)

### Devise

A gift of real property by will.

### Devisee

A person to whom a gift of real property is made by will.

### Devisor

One who bequeaths real property to another or others by will.

### Devolution

The passing of title of real estate by hereditary succession. The laws of descent and devolution vary among the states.

### Diary

A book or other record kept for the purpose of journalizing the maturity dates of notes, bonds, acceptances, or other time instruments; a tickler or maturity-index. (See Tickler.)

### Digested Securities

Securities sold to persons who intend to keep them for the purpose of deriving an income; securities purchased outright and in the hands of real investors or ultimate owners. When first distributed an issue of securities is likely to be purchased in part by speculators who intend to dispose of their holdings at the first favorable market opportunity. This situation tends to bring about fluctuating prices. When securities

are well "digested," price changes are apt to be insignificant and reflect only the trend in long-term interest rates. (See Undigested Securities.)

### Dime

The United States silver 10-cent piece. It weighs 38.58 grains and is 0.900 fine. (See Subsidiary Silver Coins, Token Money.)

### Dinar

See Foreign Moneys—Serbia.

### Direct Liability

A primary liability as distinguished from a contingent liability; an absolute and certain debt which must be paid on demand or at maturity by the principal debtor. A note is the direct liability of the maker.

### Direct Obligation

See Obligation.

### Directorate

Board of Directors. (See Directors.)

### Director of the Budget

See Bureau of the Budget.

### Director of the Mint

See Mint.

### Directors

The persons in whom the management of a corporation rests. The directors of a bank are responsible to its stockholders for successful management and satisfactory profits, and to the national or state banking authorities, depending on whether the bank is organized under the national or state banking laws, for the conduct of their bank in accordance with the banking laws, regulations of the Comptroller of the Currency or State Banking Department, and sound banking principles, on behalf of the depositors and general public.

National bank directors are required to be citizens of the United States, and to own at least five shares of stock of the bank of which they are directors if the capital stock is \$25,000, and ten shares if it is over that amount. Such shares must be owned free of debt and may not be hypothecated. Directors must take an oath of office to administer the affairs of the bank diligently and faithfully, and not knowingly to permit violations of the law.

The board of directors of a National bank

may not consist of less than five members, but the maximum number is not limited. The president of the bank and a majority of the board of directors must be residents of the place where the bank is located. The first board of directors is usually named in the certificate of organization, but the stockholders elect their successors in accordance with the by-laws at their annual meeting. Directors' meetings are required to be held at least once a month. At such meetings the action of the discount committee in granting loans since the last meeting must be approved or disapproved.

The directors as a board appoint the president, vice-president, cashier and other officers. They define their duties, fix their salaries and the amount of their fidelity bonds.

The directors formulate the general policies of the bank, and have authority to act in the interests of the bank when not in conflict with the banking laws. Regular reports, including those to the Comptroller of the Currency, must be signed by at least three directors. They are held responsible for the publication of false reports and for excess loans.

A National bank may not make loans to directors without the consent of the majority of the board. Directors of one bank, moreover, may not be directors of another bank, except under certain conditions specified in the amendments to the *Clayton Act* (q. v.).

Directors of state banks and trust companies have the same general relations to their institutions as National bank directors to their banks, although the banking laws of the states vary somewhat in this respect. In New York state the board of directors may consist of from five to thirty members if a state bank, and from seven to thirty members if a trust company.

For election, powers, duties and restrictions imposed upon Federal Reserve bank directors, see Federal Reserve Act, Sec. 4, 22. (See Directors' Examinations.)

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#### Directors' Examinations

Examination of a bank conducted by its directors. Directors' examinations are not

specifically required by the National Bank Act, but are required by the banking laws of many of the states for state banks and trust companies. These laws usually permit the directors to delegate this work to a firm of public accountants. The New York state banking law requiring directors' examination reads:

"It shall be the duty of the Board of Directors of every bank during the months of March or April and during the months of September or October in each year to examine, or cause a committee of at least three of its members to examine fully, the books, papers and affairs of the bank, and the loans and discounts thereof. . . . Such directors shall have power to employ such assistance in making such examinations as they may deem necessary. When a bank is a member of the Federal Reserve System of the United States and of the New York Clearing House Association, thereby becoming subject to at least one examination each year by the Federal Reserve Board and by the New York Clearing House, respectively, then and on account of such liability to such examination, the board of directors of such bank may omit the latter of the two examinations provided for in each year by this section."

(See Bank Examination.)

#### Disagio

The opposite of *Agio* (q. v.). A term used chiefly in continental Europe, meaning the discount which depreciated paper currency suffers from standard or subsidiary coins of like face value; or discount upon a coin for loss of weight by abrasion or mutilation.

#### Disbursement

In general, a cash payment or expenditure. It refers particularly to cash outgo representing expenses rather than outgo representing the purchase of assets.

#### Disclaimer

A renunciation or repudiation. A transportation company may place in its bill of lading a disclaimer clause refusing responsibility for losses which may arise because the "shipper's load and count" do not tally with actual deliveries made to it.

#### Discount

This term has six meanings:  
 (1) *Cash Discount* (q. v.).



(2) **Bank Discount.** Interest paid in advance, or more accurately, interest paid at the beginning of a loan based upon the sum to be repaid at its maturity. The rate of discount charged by a bank is not the same as the rate of interest paid by the borrower. Interest retained by the lender at the time a note, acceptance or bill of exchange is discounted and the proceeds given to the borrower, and not at maturity. The interest so taken is called discount, or bank discount. For illustration, suppose a \$10,000 note maturing in six months is discounted at 6 per cent. The discount would be .03 of \$10,000, which is \$300, the proceeds being the balance, or \$9,700. Although this is the commercial and bank method of computing discount, it is not mathematically correct, inasmuch as the borrower is paying interest in advance of the use of the funds, and, therefore, pays interest upon interest. True discount, explained below, is the accurate method of computing interest paid in advance. (See Interest.)

(3) **True Discount.** This differs from bank discount in that interest is computed on the proceeds or amount borrowed and does not entail the payment of interest upon interest. In principle it is the same as determining the present worth of a sum of money due on a future date. In the example used in illustrating bank discount, true discount is found first by computing the proceeds. This is ascertained by dividing \$10,000 by 1.03 (1 representing the principal and .03 representing the interest on \$1.00 for six months at 6 per cent.) which is \$9,700.87. The true discount is the difference, or \$299.13. From this result it is clear that true discount is slightly more favorable to the borrower than bank discount, which, conversely, is more favorable to the lender. (See Interest.)

(4) **Discount on Securities.** An expression used to indicate the amount or percentage which a security sells below par value, being the opposite of premium. A bond of \$1,000 par value, selling at 90, is at a 10 per cent. or \$100 discount. A stock of \$25 par value, selling at 24, is at 4 per cent. or \$1.00 discount.

To the issuer bond discount represents deferred interest, because the issuing organization must retire the bonds at par, thereby increasing the effective interest rate. The discount upon the issue should logically be accumulated during the life of the bonds as an additional interest charge. This process is called accumulation. (See Amortization, Deferred Interest.)

When stock is sold at discount by the issuing corporation, the amount of discount becomes in reality a deficit. It is usually offset, however, by some fictitious asset, *e. g.*, good will.

(5) **Paper money** is at a discount when it does not circulate at par with the standard money or other metallic currency.

When more than a dollar of paper money must be given in order to purchase a dollar of standard money, paper money is at a discount. (See Depreciated Currency.)

(6) **Exchange Discount.** (See Domestic Exchange, Foreign Exchange.)

### Discount Clerk

A bank employee responsible for handling the clerical routine in the discount department including computations in discounting notes, acceptances, etc. He also has charge of all records maintained in connection with bills discounted, *e. g.*, register, ledger, rate book and maturity tickler.

### Discount Corporation

The name given to a banking corporation engaged in the purchase and discount of trade and bankers' acceptances, bills of exchange and other forms of commercial paper, etc. These corporations may be organized under Federal authority (Edge Act) or under various state jurisdictions. Their function is to supplement the regular banking facilities for discounting trade and bankers' acceptances, especially those arising out of export and import transactions.

Discount corporations in America are of recent development. They are more numerous in England because of the greater volume of foreign bills handled in London, the world discount and money market. (See Edge Act, Edge Corporation, Foreign Banking Corporation.)

### Discount House

See Discount Corporation.

### Discounting the Market

Anticipating an event marketwise. Discounting the market or a particular security is giving effect to the expected event before it occurs by a rise or decline in prices according to whether the future event is favorable or unfavorable. For example, if it becomes commonly acknowledged by signs of improvement that business activity will have greatly increased in the next six months, although prosperity is not now

actually existent, speculators will anticipate the improvement by gradually bidding higher prices. Conversely, if business conditions are expected to become depressed in the immediate future the discounting process will take place, but in the opposite direction. "Coming events cast their shadows before them," and intelligent speculation is based upon predicting the future of prices. Not all events can be discounted, because not all can be foreseen, *e. g.*, a Supreme Court decision, a sudden declaration of war, an earthquake, labor strikes, etc.

It is possible both to under-discount and over-discount a future event. This is what happens in practically every period of boom or depression. The momentum of speculative enthusiasm carries prices beyond the values represented by equities and potential earning power and the momentum of liquidation carries prices below these values.

The stock market is said to "register" or "discount" events from three to nine months ahead, so that by the time an event has occurred, the particular security affected or the entire market has already reflected the changed condition. In this way violent and sudden price fluctuations are prevented, or, at least, mitigated.

### Discount Ledger

See Bills Discounted Ledger, Liability Ledger.

### Discount Rate

The rate of interest at which a bank discounts notes, acceptances and bills of exchange and which varies according to money market conditions, according to the borrower, and maturity. The best names (prime paper) command a lower rate than other names. This term frequently is used synonymously with rediscount rate and bank rate. (See Bank Rate, Interest Rate, Rediscount Rate.)

### Discount Register

See Bills Discounted Register.

### Discretionary Accounts

Accounts placed with a broker in which the selection of securities and the time and price of their purchase and sale is left with the broker.

### Discretionary Orders

Authority given to a broker to execute purchases and sales of securities at the lat-

ter's selection and option as to price, with the expectation of yielding a profit, but at the risk of the customer. Most stock exchange brokers refuse to accept discretionary orders.

### Dishonor

Failure or refusal by the maker of a note, or acceptor of a bill of exchange, to pay the instrument at maturity; also the refusal of a drawee bank to pay its customer's check. This is called dishonor for non-payment. Failure or refusal to accept a time bill of exchange constitutes dishonor for non-acceptance.

"An instrument is dishonored by non-payment when: (1) it is duly presented for payment and payment is refused or cannot be obtained; or (2) presentment is excused and the instrument is overdue and unpaid." (Negotiable Instruments Act, Art. 7, Sec. 143.) When a bill of exchange is dishonored for non-acceptance the maker should be notified. When an instrument is dishonored for non-payment notice should be sent to the drawee and indorsers against whom recourse accrues to the holder through protest proceedings. (See Notarial Protest Certificate.)

A bank will dishonor a check under the following conditions: (1) when the drawer has issued a stop payment order; (2) when there is some irregularity or informality, *e. g.*, insufficient funds, post-dated, etc. (See Irregularities); (3) upon receipt of a garnishee order; (4) upon notice of the drawer's death; and (5) upon notice of bankruptcy of the drawer, in which case the funds are held for the trustee or awaiting court order.

### Dissolution

The winding up or termination of a business through the sale of its assets and discharge of its liabilities, first to the preferential creditors (employees for wages and Government for taxes), second to the secured creditors, third to the unsecured or general creditors, and lastly to the owners.

### Distributing Syndicate

See Syndicate.

### Distribution of Risk

A well-known investment principle popularly expressed in the maxim, "Don't put all your eggs in one basket." The principle usually applied by conservative investors and

speculators, and enforced upon the banks by the banking laws, implies the spreading of investment funds over a number of media, instead of a single medium. As an illustration of diversification in investment holdings, a fund of \$100,000 might be divided in the following proportions as between different classes of investments: Real estate, \$20,000; first mortgage real estate bonds, \$10,000; Government bonds, \$10,000; railroad bonds, \$10,000; public utility bonds, \$10,000; industrial bonds, \$10,000; preferred stocks, \$10,000; carefully selected common stocks, \$10,000, and in own business \$10,000. The theory of diversifying investment media is to reduce the risk of loss to as near the vanishing point as possible without at the same time unduly sacrificing income. One investment medium may prove unprofitable, but it is unlikely that disaster will befall all of them, but if so, then certainly not in the same degree.

Distribution of risk does not preclude specialization in one class of investment media provided diversification in a single class is obtained. One who decides to invest exclusively in bonds should not purchase railroad bonds only, and certainly not the bonds of a single railroad. If bonds are to be the investor's specialty, purchases should be distributed among Government, municipal, railroad, public utility and industrial issues. One may, however, specialize in railroad bonds and still secure a distribution of risk, although to a less degree, by purchasing bonds of different railroad companies. Neither does the principle preclude the selection of the highest-grade investments in each class of investment media; it simply demands that the investment be spread among several particular possibilities in a given class. Diversification is less important as a safeguard against loss in the high-grade investments.

A practical application of the use of this principle is exemplified in the case of bank loans and investments. National banks are not permitted to lend more than 10 per cent. of their combined capital and surplus to one borrower (with certain exceptions). Good management requires, moreover, that a bank extend loans not only to a large number of businesses and persons but also to borrowers who represent a high diversity of business types. Savings banks are permitted to invest only a part of their deposits in various classes of bonds and mortgage loans. One of the functions of bank examinations is to see that the legal restrictions giving effect to the principle of distribution of risk are

not violated, to the end that the depositors' interests may be fully protected.

### Distribution of Securities

See Bond Marketing, Distribution, Period of.

### Distribution, Period of

The last phases of a speculative cycle which may be divided into three phases which occur in rotation, *viz.*, accumulation, advance, distribution. Distribution is the period which follows the great advance in security prices and in which experienced speculators and large interests anticipating conditions in advance and knowing that prosperity must again give way to depression, close out their holdings while prices are still high, and before the speculative crisis which marks the beginning of a period of liquidation takes place. (See Speculative Cycle.)

### District Offices

Branches or branch offices of a bank.

### Diversification

See Distribution of Risk.

### Dividend

The proportion of the net earnings of a corporation distributed to stockholders representing their profits in the enterprise. Dividend disbursements are based upon a percentage of the par value of the stock, or in case of stock of no par value, a certain sum per share. Dividends are usually declared at regular intervals, *e. g.*, monthly, quarterly, semi-annually, or annually, but usually quarterly. Dividends do not become payable until declared by the board of directors. At the time of declaration this body also sets a date for the closing of the transfer books and the date of the disbursement. (See Books Close, Stockholders of Record.)

Dividend disbursements are of three kinds, as follows: (1) cash, regular and extra; (2) scrip, interest bearing and non-interest bearing, and (3) stock.

Ordinarily, dividends are paid in cash, but sometimes when earnings have been above normal, an extra cash dividend is declared over and above the regular dividend and is so designated. It is a principle of good corporate finance that regular dividends should be paid at a rate that presumably can be maintained and that when profits are above normal, extra dividends may be declared, but specified as such.



Scrip dividends are those paid in the company's promises to pay, instead of cash. They are paid when either current or past earnings are sufficient to permit cash dividends, but the company desires temporarily to conserve its holdings of cash. Scrip dividends may bear a definite maturity date or the disbursement date may be left to the discretion of the board of directors. Such dividends may be interest bearing or non-interest bearing.

A *Stock Dividend* (q.v.) is a dividend payable in the company's own stock.

Dividends may also be paid in commodities. In many instances, corporations have distributed holdings of Liberty bonds by paying them out as dividends.

Besides dividends representing disbursements of profits, there are dividends representing the liquidation of the assets of a business upon dissolution. Such a dividend is called a liquidating dividend.

Considerable conflict of opinion has occurred among courts and accountants as to what constitutes profits for dividend purposes. It is well understood, of course, that dividends must not be paid out of capital, but only out of profits, whether earned currently or in a past accounting period, but the questions, whether money can be borrowed to pay dividends, provided the dividends have been earned, and whether dividends should be paid out of the proceeds of the sale of fixed assets when the business continues as a going concern, have given rise to conflicting court decisions.

A National bank cannot disburse its entire earnings as dividends until its surplus amounts to 20 per cent. of its capital stock. Until this amount has been reached, one-tenth of its net profits at each accounting period must be carried to the surplus account. The surplus account must be maintained at 20 per cent. of the capital and is not available for dividends. The surplus account in excess of 20 per cent. for the capital, while legally available for dividends, in practice, is rarely, if ever, invaded.

For guaranteed dividends see *Guaranteed Stock*. (See *Stock Dividend*.)

### **Dividend Bonds**

See Participating Bonds.

### **Dividend Forecast Chart**

A chart prepared by the statistical department of a brokerage house which shows the past and present earnings and dividend rates, and the probable future dividend rates based

upon current business conditions for a selected group of representative stocks; a chart showing prospective dividends for leading companies.

### **Dividend in Liquidation**

See Dividend.

### **Dividend Payers**

A stock market expression used to indicate corporations the stocks of which pay dividends.

### **Dividend Warrant**

An order to pay a dividend to a stockholder.

### **Divisional Bonds**

Bonds which are the obligation of a division of a railroad as distinguished from the rest of the system. In a loose sense, divisional bonds are branch line bonds. The most usual interpretation of a divisional bond is that it is one secured by a mortgage on the property constituting a certain division of a railroad as distinguished from property of the entire system. Divisional bonds may originally have been obligations of a separate railroad, but since taken over and assumed by another. Ordinarily it is to be understood that divisional bonds are issued by a railroad corporation with a mortgage on a certain division of its property as security.

### **Division of Issue**

See Division of Redemption.

### **Division of Redemption**

The Divisions of Issue and Redemption are establishments under the jurisdiction of the Treasurer of the United States. These divisions of the Treasury Department control the records and accounts relating to the issue and redemption of United States notes, gold certificates, silver certificates and currency certificates. The records and accounts relating to the reserve fund for the redemption of United States notes and treasury notes, the gold coin held against outstanding gold certificates, the United States notes held against outstanding currency certificates, and silver dollars held against outstanding silver certificates, and each of the funds represented by these accounts are used for the redemption of the notes and certificates for which they are respectively pledged. (See Treasury Department.)

**Dock Receipt**

A receipt given by a steamship company to the shipper or shipper's agent when goods are delivered on the steamship pier for transportation abroad. It is an interim document, an ocean bill of lading issued before shipment, being given in exchange therefor.

**Documentary Acceptance Bills**

See Documents against Acceptance.

**Documentary Bills**

Bills of exchange having shipping or other documents attached, *e. g.*, bill of lading, invoice, insurance certificate, securities, insurance policies, bonds and coupons, or other documents having intrinsic value. Documentary bills give prima facie evidence of the transfer of values and therefore of their self-liquidating nature. Where shipping documents are attached there is prima facie evidence that the bill has arisen out of a commercial transaction. Documentary bills are secured, provided the indorsement on the accompanying documents passes title to the purchasing bank, and by the liability of the drawer until the bill is accepted or paid by the drawee. (See Bill of Exchange, Foreign Bills of Exchange.)

**Documentary Commercial Bills**

Bills of exchange arising out of commercial transactions and supported by bills of lading and relative papers. (See Bill of Exchange, Documentary Bills.)

**Documentary Payment Bills**

See Documents against Payment.

**Documents**

A general term to denote the relative papers or documents which may accompany a foreign bill of exchange arising out of commercial transactions, and include ocean or through bill of lading, marine insurance certificate, seller's invoice, etc. Sometimes the following documents also accompany bills of exchange: consular invoice, certificate of analysis, certificate of origin, certificate of inspection, and warehouse receipt. In the strict sense documents are those instruments which convey title to the goods which secure the bill of exchange.

**Documents Against Acceptance**

A term which refers to domestic or foreign bills of exchange drawn "D/A," which is a notification that the supporting docu-

ments are not to be released to the drawee until the bill has been accepted. Such bills are known as *documentary acceptance bills*.

**Documents Against Payment**

A term which refers to domestic or foreign bills of exchange drawn "D/P," which is a notification that the supporting documents are not to be released to the drawee until the bill has been paid. Such bills are known as *documentary payment bills*.

**Dollar**

The monetary unit of the United States and also a few other countries including British Honduras (dollar), Panama (balboa), Liberia (dollar), Nicaragua (cordova), Columbia (dollar), and Canada, except Newfoundland (dollar).

Although the *Monetary Unit* (q. v.) and *Standard of Value* (q. v.) in the United States the gold dollar is no longer coined. Gold coinage is restricted to the eagle (\$10), double-eagle (\$20), and half-eagle (\$5). The gold dollar contains 25.8 grains of standard gold (0.900 fine), consisting of 23.22 grains of pure gold and 2.58 grains of copper alloy.

The silver dollar coined only on Government account contains 412½ grains of standard silver (0.900 fine), consisting of 371¼ grains of pure silver and 41.25 grains of copper alloy. (See Money of Account, Silver Dollar, Standard Money, Trade Dollar, United States Money.)

**Dollar Acceptances**

See Dollar Exchange.

**Dollar Bills of Exchange**

See Dollar Exchange.

**Dollar Credits**

Letters of credit providing for drafts to be drawn in dollars. (See Dollar Exchange, Letters of Credit, Limitations on Acceptance Credits.)

**Dollar Exchange**

Acceptances and bills of exchange drawn in a foreign country and payable in the United States or another country in dollars, or drawn in the United States and payable in a foreign country in dollars. Acceptances for the creation of dollar exchange by members of the Federal Reserve System are not permitted without special permission of the Federal Reserve Board. (See Limitations on Acceptance Credits.)

### Dollar Foreign Bonds

Bonds issued by foreign governments or corporations in foreign countries payable in dollars in the United States. (See External Bonds.)

### Dollar Stabilization

See Stabilized Dollar.

### Domestic Acceptance

An acceptance in which both drawer and drawee are located in the United States, and, therefore, payable in this country. (See Acceptance, Limitation on Acceptance Credits.)

### Domestic Bills

Bills of exchange in which both drawer and drawee are located in the United States, and, therefore, payable in this country. (See Bill of Exchange, Draft.)

### Domestic Exchange

Inland exchange; checks, drafts (bank and commercial), and acceptances drawn in one place and payable in another within the United States, as distinguished from checks, bills of exchange, bank drafts, and acceptances drawn in this country and payable abroad which are known as *Foreign Exchange* (q. v.).

"Bills, drafts, etc., arising in domestic clearings, payable in any place, are sometimes spoken of as the 'exchange' of that place, although in practice 'exchange' is pretty generally limited to bank drafts. A draft on a New York bank is thus 'New York exchange,' on a Chicago bank it would be 'Chicago exchange,' and so on. In the main, however, the term 'exchange' is confined to drafts on the large centers."\*

Formerly, before the introduction of *Par Clearances* (q. v.) inaugurated by the Federal Reserve banks in 1916, the value of exchange on the various central points in the United States fluctuated in accordance with supply and demand. For example, New York exchange would be quoted in Chicago or San Francisco above or below par in accordance with the relation existing between the supply of and demand for New York funds in those centers. If the supply of New York funds held as balances in New York banks by Chicago banks was excessive and tending to increase faster than the demand for such funds, then the exchange rate on New York would be quoted at a discount; if demand was relatively heavier

than supply, however, New York exchange would command a premium. As in the case of foreign exchange, the limits of fluctuation in exchange rates were fixed by the cost of shipping currency.

Under the Federal Reserve inter-district check collection system, fully 95 per cent. of the banks of the United States have acceded to the plan of accepting and remitting for checks drawn upon themselves and passed through the *Federal Reserve Check Collection System* (q. v.) at par. All members of the Federal Reserve System are required to accept their own checks at par, and any other bank may use the facilities of the Federal Reserve check collection system if it signifies its willingness to do the same, thereby becoming a *Clearing Member* (q. v.).

Member banks are no longer obliged to be put to any expense in shipping currency from one point to another in order to create a supply of exchange against which they may sell their drafts. Federal Reserve banks are always prepared to transfer funds for the account of member banks from one part of the country to another without cost. These transfers are manipulated without actual currency shipments by means of book credits, debit and credit balances among the Federal Reserve banks being settled daily through the operation of the *Gold Settlement Fund* (q. v.).

Furthermore, if any bank (whether a member or clearing member) wishes to remit currency to another point in payment of its own checks presented through the Federal Reserve check collection system, it may do so and the Federal Reserve bank will pay all transportation charges. Thus the ideal of the Federal Reserve check collection system now employed in the transmission of funds from one part of the country to another is to effect a materialization of par currencies, *i. e.*, an elimination of exchange rates without loss to the maker or indorser of a check, draft, or acceptance.

The elimination of exchange rates in the sense in which it is employed above, is far different, of course, from making a charge for receiving for deposit and credit a check or draft drawn upon a bank located at an out-of-town point. Bank A in New York, which receives for deposit a check drawn on Bank B in San Francisco, does not receive the proceeds of that check for 5 days, since it takes 5 days to collect it. Bank A charges its customer for this delay, because if the account is interest-bearing, it is entitled to receive interest from the day of deposit. Such a charge is not an exchange

\* E. E. Agger: *Organized Banking*, p. 120.



charge at all. It is rather an interest or discount charge. The check which Bank A has received is exactly similar to a note due in five days. Just as one would not expect to have a note not due for five days accepted at par, so one should not expect to have a check not due for five days accepted at par. Such a charge is therefore justifiable, and is not only permitted by the Federal Reserve banks, but is made compulsory by the New York Clearing House Association through its schedule of rates, designed to prevent loss to New York clearing house banks by standardizing rates and preventing competition for deposits from country banks.

The discount charge, commonly but improperly called exchange, made by banks in receiving out-of-town items for deposit depends upon three factors:

1. The kind of item being collected, a preferential rate being accorded bankers' acceptances, but a higher than the base rate being charged for "collection" items.
2. Whether the bank on which the item is drawn is located in a Federal Reserve city (or Federal Reserve branch city). Items drawn on these points enjoy a preferential rate because of the special collecting facilities of the Federal Reserve System. With New York City taken as a base, this difference is shown as follows:

Points	On Federal Reserve Cities or Branch Cities	All Other Cities
1 day	Par	Par
2 days	1/40	Par and 1/40
4 days	1/20	1/20 and 1/10
5 days	1/20	1/10
8 days	.....	1/10

3. The mail time between the point of deposit and the point upon which the item is drawn. This interval is important because it determines the approximate time taken for collection and the amount of interest lost while the item is in transit. (The mail time is in turn determined approximately by the geographical distance.)

(See Par List, Par Points.)

### Domestic Travelers' Letter of Credit

See Traveler's Letter of Credit.

### Domicile

Literally, residence or home. It has acquired a technical meaning in commerce, especially in connection with bills of exchange which are said to be domiciled at the place where they are payable.

In trust business domicile means residence. When a woman marries she loses her former domicile and acquires that of her husband. The domicile of a minor is that of the father.

### Donated Stock

Stock which has been given back to a corporation by its promoters or stockholders, representing a part of their holdings, especially when the stock has been issued in payment of property. The purpose of donated stock is to enable a corporation to raise cash for working capital purposes through its sale. If such stock was originally issued for full value in property, it is fully-paid, and, therefore, non-assessable.

### Donor

A giver; a person who creates a voluntary trust, also known as settler, grantor, and trustor. (See Trusts.)

### Dormant Accounts

Bank or brokerage accounts showing little or no activity, presumably with small and without increasing balances.

### Double Bottom

See Bottom.

### Double Eagle

The United States \$20 gold piece. It weighs 516 grains and is 0.900 fine. (See Gold Coins, United States Money.)

### Double Liability

A term used with reference to corporations the stockholders of which can legally be held individually responsible, equally and ratably for its obligations to an amount equal to the face value of their shares in addition to their present holdings. The stockholders of such a corporation are subject to lose not only their original investment, but, in addition, an amount equal to the par value of their stock. The National banking laws provide for double liability in the case of all National banks except the National Bank of Commerce, New York City, which had at the time of the National

Bank Act a paid-in capital of over five million dollars, which exempted it from the double liability provisions. Banks organized under most of the state banking laws are also subject to double liability.

### Double Name Paper

See Two-Name Paper.

### Double Standard

See Bimetallism.

### Drachma

See Foreign Moneys—Greece.

### Draft

A written order drawn by one party (the drawer) ordering a second party (the drawee) to pay a sum of money to a third party (the payee). Oftentimes the drawer and payee are the same party, the draft being made payable to "Ourselves". In reality, a draft is a bill of exchange, except that in this country the term draft is customarily used in domestic transactions, whereas, both terms, *draft* and *bill of exchange* are used in foreign transactions. A draft may be made non-negotiable, but a bill of exchange cannot. Drafts have all the chief characteristics of bills of exchange.

Drafts are of three kinds: (1) sight, demand or presentation drafts, payable immediately at sight, or on demand or presentation; (2) arrival drafts—a modification of a sight draft—payable upon the arrival of goods at the destination of the drawee and for which the draft has been drawn in payment; (3) time drafts—payable at a fixed date, or a certain number of days after date (the latter sometimes being called "days after date" drafts).

A time draft payable 30 days after sight must be presented for acceptance, and at maturity for payment. A 30-day sight draft is payable 30 days after *Acceptance* (q. v.) by the drawee, when it becomes an acceptance or note. Upon acceptance the drawee becomes the acceptor and principal debtor, and is bound to pay the draft at maturity. The bank at which a draft is payable should be indicated on the face of the instrument by the acceptor.

Drafts usually arise out of commercial transactions in which the buyer and seller are located at different points. A draft differs from a check in that it may be a time instrument drawn on an individual, firm, corporation or bank, and the initiative

for payment of the goods is taken by the seller and not the buyer. Usually previous arrangements have been made between the buyer and the seller which permit the seller to draw drafts against the buyer in settlement of all transactions between them. Generally a shipper (seller) sends the draft drawn against the drawee (buyer) to its bank to make a presentation and collection with shipping documents attached. The shipper's bank then forwards the draft with documents to its correspondents in the city to which the goods are destined. Instructions are given to the collecting bank to surrender the bill of lading either upon acceptance or payment of the draft, the documents being referred to as "documents against acceptance," or "documents against payment," respectively.

Some drafts do not arise out of commercial transactions, but to secure payment for securities sent from one place to another, the draft being sent to a bank for collection with instructions to release the securities only upon payment. Other drafts, without documents attached, merely operate as "duns" or demands for payment of bills past due. (See Arrival Draft, Bill of Exchange, Foreign Bills of Exchange, Trade Acceptance.)

### Drawee

The party, whether an individual, firm, corporation or bank, against which a check or draft is drawn and from which payment is expected.

### Drawer

A party, whether an individual, firm, corporation or bank, which draws, *i. e.*, makes, a check, draft, or bill of exchange. The drawer is also known as the maker. In the case of a check the drawer is a debtor, and therefore, the payer, while in the case of a draft and bill of exchange the drawer is the creditor, and also very often the payee.

### Drawn Bonds

Bonds which have been called for redemption by lot. (See Called Bonds.)

### Drive

An expression to indicate a sudden attack upon security or commodity values by sellers in an effort to force prices down.

### Drop

An expression to indicate a fall in security or commodity prices.

**Due Date**

The date upon which a note, draft, acceptance, bond, or other evidence of debt becomes payable; the maturity date. (See Time to Run.)

**Due from Banks**

An asset account appearing in the general ledger and financial statement of a bank to indicate the aggregate amount of balances outstanding with and due from other banks.

**Due from Banks, Collections**

A contingent asset account appearing in the general ledger and financial statements of a bank to indicate the aggregate amount of out-of-town checks in process of collection, but not yet available as cash, through the medium of collection agents or correspondent banks. When the items are collected, the amount is added to the account entitled "Due from Banks," and subtracted from this account.

**Due from Federal Reserve Bank (or Federal Reserve Bank Account)**

An asset account appearing in the general ledger and financial statement of a member or clearing member bank to indicate the balance due from a Federal Reserve bank. This amount represents approximately the cash reserve required by law to be kept with the Federal Reserve bank.

**Due from Federal Reserve Bank, Collections**

A contingent asset account appearing in the general ledger and financial statement of a bank to indicate the aggregate of checks in the process of collection, but not yet available as cash reserve through the agency of the Federal Reserve bank. When these items are collected, the account entitled, "Due from Federal Reserve Bank" is increased, and the amount subtracted from this account.

**Due from Foreign Exchange Department**

An asset account appearing upon the general ledger or financial statement of a bank to indicate the aggregate funds entrusted with the foreign department for use or investment in foreign exchange operations. The operations of a foreign department are usually considered as distinct from those of the rest of the bank, and its bookkeeping op-

erations are kept separate. This sum represents the accountability of the foreign department to the bank.

**Due to Banks**

A liability account appearing in the general ledger or financial statement of a bank to indicate the aggregate amount deposited by banks as distinguished from individuals, firms and corporations (other than banking corporations).

**Dull**

An expression used on a stock or produce exchange to indicate inactive trading, and that little interest is displayed in the movement of prices.

**Dummy**

A term used in connection with directors, officers, stockholders, etc., to indicate a person who acts for another, but who has no real responsibility or liability. He is merely placed in office to complete the number required by law or for publicity purposes.

**Dump**

To offer suddenly for sale large blocks of securities on the market for the purpose of disposing of them regardless of the prices offered; to unload large blocks of a security or securities.

In a commercial sense this term is used in connection with international trade. When one nation floods the market of another with large quantities of a certain commodity or commodities at prices lower than they can be purchased at home, or in other foreign countries, the foreign nation is said to be dumping its goods in the other country's market.

**Dun's**

A name referring to R. G. Dun & Company, one of the general mercantile agencies. (See Mercantile Agencies.)

**Duplicate Bills**

*Bills in a Set* (q. v.). (See First of Exchange.)

**Duplicate Bill of Exchange (Check)**

See First of Exchange.

**Duplicate Documents**

Documents in a set. (See Bills in a Set.)

**Duty**

See Customs Duty.



## E

### Eagle

The United States \$10 gold piece. It weighs 258 grains, and is 0.900 fine. (See Gold Coins, United States Money.)

### Earning Power

The ability of a business consistently to employ its capital profitably over a period of time. When profits show a reasonable return to invested capital and are sufficient also to provide for a high standard of maintenance of properties and necessary plant extensions, the concern is said to have a demonstrated earning power. Demonstrated earning power is the best test of the *Business Risk* (q. v.) in passing upon an application for a loan.

### Earnings

Another term for profits. (See Gross Profits, Gross Revenue, Net Profits.)

### Eased Off

An expression which signifies a gradual and small decline, say fractional to one point, in security or commodity prices, without evidence of bear pressure or of enforced liquidation.

### Easy Money

Money that can be obtained at low interest rates and without difficulty because of the existence of a plentiful supply of available funds among the banks.

### Edge Act

An act passed December 24, 1919, as an amendment to Section 25 of the Federal Reserve Act, with the title "Banking Corporations Authorized to do Foreign Banking Business." The purpose of this legislation is to permit the establishment under federal jurisdiction of foreign banking corporations to aid in the finance of and to stimulate foreign trade. Such a law had been advocated strongly by the Federal Reserve Board for some years past, and represents the latest development in the historical evolution of American banking legislation to procure for American business and financial interests a larger participation in foreign trade and in the profits derived from lending our credit to foreign buyers.

The original Section 25 of the Federal Reserve Act was the first step taken in the interests of foreign trade upbuilding. By this section any National bank with a capital and surplus of one million dollars or more was permitted to establish branches in foreign countries and dependencies of the United States with the approval of the Federal Reserve Board. Prior to 1913 practically all the financing of foreign trade had been undertaken by British banks and discount houses, and only a small part of the business was participated in by a few private banks and discount houses in New York.

During the war the need of further legislation to provide for our growing foreign trade became apparent, and Section 25 of the Federal Reserve Act was amended to permit National banks having legal capital requirements to invest in the capital stock of American banks or corporations already engaged in foreign banking. A few institutions engaging in foreign banking were organized under the banking laws of several of the states, but they were inadequate to provide for all the business. Accordingly the McLean-Platt Act, which permitted National banks without regard to the amount of their capital and surplus to purchase the capital stock of corporations of the type contemplated by the Edge Act, but not in excess of 5 per cent. of their capital and surplus, was passed.

The Edge Act provides for the federal incorporation and regulation of banks engaged in international banking, or in similar operations in a dependency or insular possession of the United States, either directly or through the agency, ownership or control of local institutions in such places. Although the line of demarcation is not sharply drawn, two separate classes of corporations are contemplated by the Edge Act—one to deal in short-term paper, and the other to deal in long-term paper, bonds and mortgages, and with power to issue debentures.

Edge corporations are chartered by the Federal Reserve Board for 20 years with a minimum capital of \$2,000,000. They have power to deal in bonds; buy and sell all classes of commercial paper; to accept bills of exchange drawn upon them under the

regulations and subject to the limitations imposed by the Federal Reserve Board; to issue letters of credit; to deal in foreign currencies and bullion; to receive deposits abroad subject to check; to receive deposits in the United States but not subject to check; to invest in the stock of another Edge bank; to establish branches and agencies abroad but not in the United States; to issue debentures, bonds and notes with the approval of the Federal Reserve Board; and incidental powers permitted by the Federal Reserve Board.

(See Federal Reserve Act, Sec. 25a.)

### Edge Corporation

A foreign banking corporation organized under Section 25a of the Federal Reserve Act. (See Edge Act.)

### Eighth Stocks

A term used among odd lot dealers to signify those stocks the orders for which are executed at one-eighth point from the next full lot sale, or if the customer places a limited order, at one-eighth point from the bid or offered price, as distinguished from *Quarter Stocks* (q. v.). Most stocks dealt in odd lots are eighth stocks. (See Odd Lot, Odd Lot Brokers.)

### Elastic Currency

Money which can be expanded or contracted according to commercial needs. Elasticity is one of the essential qualities of a good medium of exchange and a sound currency system should provide this characteristic. Before the Federal Reserve Act our currency system failed to provide for an elastic currency, but Federal Reserve notes, issued under the authority of the Federal Reserve Act, now supply the elastic element which is lacking in other forms of United States currency. Since Federal Reserve notes now represent the largest portion of our circulating medium, elasticity is imparted to the entire circulation. Elasticity is secured by basing the volume of circulating medium upon the volume of credit. Federal Reserve notes being supported by a commercial paper cover, expand as business expands, as indicated by a growth in the volume of commercial paper offered for discount at the banks, and rediscounted at the Federal Reserve banks. Likewise when business contracts, the volume of commercial paper declines and the excess of Federal Reserve notes is retired. (See Federal Reserve Notes.)

### Electrolytic Copper

See Copper.

### Elevator Receipts

A receipt issued by an elevator company to an owner of grain held in storage at an elevator. They are similar in all respects, *e. g.*, legal status, negotiability, and collateral uses, with warehouse receipts. (See Warehouse Receipt.)

### Eligible Acceptances

See Eligible Paper, Federal Reserve Board Regulations (Regulation A, Series of 1923).

### Eligible Agricultural Paper

See Eligible Paper, Federal Reserve Board Regulations (Regulation A, Series of 1923).

### Eligible Bills of Exchange

See Eligible Paper, Federal Reserve Board Regulations (Regulation A, Series of 1923).

### Eligible for Rediscount

See Eligible Paper.

### Eligible Notes

See Eligible Paper, Federal Reserve Board Regulations (Regulation A, Series of 1923).

### Eligible Paper

Generally speaking, to be eligible for rediscount at a Federal Reserve bank, a note, bill of exchange, or trade or bank acceptance must possess the following characteristics: (a) it must arise out of a commercial, industrial, or agricultural transaction, *i. e.*, must be issued or drawn, or the proceeds must be used, for the production, purchase, carrying or marketing of goods (wares, merchandise, or agricultural products, including live stock) in one or more steps of the process of production, manufacture, or of distribution (see *Commercial Paper*); (b) it must not have a maturity exceeding 90 days, except that agricultural paper may have a maturity of nine months; (c) it must bear the member bank's indorsement; and (d) if over \$5,000, it must be accompanied by a recent financial statement of the principal debtor thereon. (See Federal Reserve Board Regulations, Regulation A.)

**Embezzlement**

The fraudulent appropriation by a public officer, or any other person occupying a fiduciary capacity, of the property entrusted to him by virtue of his employment. Embezzlement is not to be confused with larceny or burglary, which imply a wrongful taking away of property belonging to another by trespass or assault. Embezzlement is a misdemeanor or felony, depending upon the value of the property, and is a statutory crime punishable by imprisonment.

**Emergency Currency**

Before the Federal Reserve System was in operation, it was sometimes necessary to resort to the issue of emergency currency in case of a sudden need for money, *e. g.*, a severe panic. Notes issued by National banks under the Aldrich-Vreeland Act of 1908 were of this type. The New York Clearing House banks, also, through the New York Clearing House Association, were compelled in six different crises, the last being in 1907, to issue clearing house loan certificates. These certificates were used only among the members of the New York Clearing House, but were effective in increasing the supply of money by enabling the banks to settle inter-bank transactions. (See Clearing House Loan Certificates.)

**Enabling Act**

A general term for legislation which permits communities or districts to organize into an association or district for the purpose of financing and constructing some new public improvement, which does not affect any given civil subdivision. Thus districts are organized to provide funds for building schools, sewers, drainage projects, etc., and under "Enabling Acts" it is possible for such districts to issue bonds, and to levy taxes for their repayment.

The term also applies to legislation which enables a bank, corporation, association, or community to take advantage of an alternative method of achieving a certain result. Thus, many states have enacted laws which permit state banks and trust companies to join the Federal Reserve System, and to maintain cash reserves as required by the Federal Reserve Act instead of the requirements of the state banking laws.

**Encumbrance**

A claim or lien, such as a mortgage upon real property, thereby diminishing the owner's equity in the property.

**Endorsed Bonds**

See Indorsed Bonds.

**Endorsement**

See Indorsement.

**Endowment Insurance**

A form of life insurance which combines insurance with compulsory saving. It differs from ordinary life insurance in that the policy matures and becomes a claim at a fixed time, say 20 or 30 years after the initial premium is paid, and after which no further premiums are payable, instead of becoming payable only upon the contingency of death.

The advantage of an endowment policy is that it may be made to mature at an age when the policy holder or beneficiary has passed the income-producing period. (See Insurance.)

**Enforced Liquidation**

See Forced Liquidation.

**Engineer's Certificate**

A statement signed by an engineer certifying that he has made an examination of the physical properties of a railroad, public utility or other business, and that they are in the condition which he thereupon describes. Usually the chief purpose of the engineer's examination and report is to determine whether the properties are adequate for present requirements, or to what extent they are adequate for future requirements, or if not, what expenditures are needed, etc.

**Engineer's Report**

A report rendered by an engineer concerning the physical condition of a property (usually a railroad or public utility) which he has inspected with particular reference to its needs, improvements, etc., and whether it furnishes an adequate basis as security for further debt. (See Engineer's Certificate.)

**English Banking System**

See Bank of England, Joint-Stock Banks.

**English Money Table**

Four farthings equal one penny.

Twelve pence equal one shilling.

Two shillings equal one florin.

Five shillings equal one crown.

Twenty shillings equal one pound or sovereign.

Twenty-one shillings equal one guinea (no longer coined).

(See Foreign Moneys—England.)



**Equipment Bonds (Notes)**

See Equipment Trust.

**Equipment Trust**

A trust created to own and lease railroad equipment. On account of the large amount of fixed assets which a railroad owns and the difficulty of raising capital to purchase equipment outright, locomotives, cars, and all forms of rolling stock are often purchased by mortgaging the equipment and selling securities based upon the mortgage. The mortgage is placed in the hands of a trustee and it, rather than the rolling stock itself, becomes the security for the equipment bonds, notes or certificates issued thereagainst. Equipment trust securities are considered good investments, provided the amount of the certificates is not too great a proportion of the cost of the equipment, that there is some provision in the mortgage for the upkeep of the equipment, that the earning power of the equipment will be sufficient to pay off the securities, and that the maturity of the securities is well within the service life of the equipment, their ultimate security.

Under the so-called "Philadelphia" plan, the rolling stock is leased to the railroad with the provision that stipulated rentals be paid to the trustee for the lessor. Eventually, through a series of rental payments, the principal of the obligation is paid off and the equipment becomes the property of the railroad.

Under the "conditional sale" or "New York" plan, the title to the equipment purchased with borrowed funds does not pass to the railroad until the last series of the obligation has been retired; that is to say, the equipment is sold by the investors in the equipment trusts to the railroad conditionally. The equipment is used by the railroad, but full legal title is vested in the trustee for the benefit of the trust certificate holders, and the road must comply with the terms of the agreement governing maintenance. In addition the equipment is definitely marked as the property of the trustee, and careful record of each car and locomotive is kept. If the railroad defaults in interest or principal payments, the trustee may take possession of the equipment and sell it to other roads who are constantly in the market, as a means of raising funds with which to retire the equipment obligations.

**Equipment Trust Certificate**

See Equipment Trust.

**Equity**

This term has three meanings:

(1) In legal parlance the administration of justice, not through the strict letter of the law, but through the principles of right and justice. Thus there are Courts of Law and Courts of Equity and it is sometimes possible to bring an action, and obtain relief or recover damages, through a Court of Equity when it is impossible to do so through a Court of Law.

(2) In accounting and finance, *net ownership*, *i. e.*, the extent of the owner's right in his property above all claims and liens against it expressed in money value. Thus the equity of the stockholders in a railroad corporation is represented by the value of the railroad property in excess of the claims of all creditors, including bond and note-holders, secured and unsecured, and all current indebtedness.

(3) In margin buying, the customer's equity is the present market value of his securities less the debit balance in his account, *i. e.*, the sum borrowed from the broker to enable the customer to make the purchase.

**Erratic**

An expression used to describe the stock and produce markets when prices are uncertain, first rising, then falling, or vice versa, in succession, without a definite trend.

**Escrow**

A written agreement, *e. g.*, deed, bond, or other paper, entered into among three parties, and deposited for safe-keeping with the third party as custodian to be delivered by the latter only upon the performance or fulfillment of some condition. The custodian or depository is obliged to follow strictly the terms of the agreement respecting the other parties.

**Escrow Bonds**

Bonds held under an option to purchase or subject to some other condition. The bonds of an authorized issue, but not yet issued, being held by a trustee until additional funds are needed for improvements or expansion. Such bonds can be released only upon compliance with the terms of the escrow agreement. (See Escrow.)

**Escudo**

See Foreign Moneys—Portugal.

### Estate

Unqualified, this term means one's interest in land. Commonly, the term is qualified by the words, "personal" and "real," which are substantially identical with *Personal Property* (q. v.) and *Real Property* (q. v.) or *Real Estate* (q. v.), respectively.

### Evening Up

A stock market expression to indicate the process which occurs when holders of long stock sell, and short sellers purchase, to cover their contracts simultaneously, so that the demand and supply of stocks is about equal and price changes are without significance. Financial reviewers often refer to the "usual week-end evening-up process," indicating that operators have disposed of their holdings or covered their contracts, not desiring to commit themselves over the week-end.

### Even Lots

Board lots; full lots. Lots or number of shares of stock sold in the usual trading unit of 100 shares, or multiples thereof, *e.g.*, 100, 200, 300, etc.

### Ex

Literally means *out of*, but in finance means without, *e. g.*, *Ex-Dividend* (q. v.).

### Ex-All

Without all rights and privileges; stocks sold ex-all reserve all privileges, such as pending dividends, the right to subscribe for additional stock, or other advantages to the seller.

### Examinations

See Bank Examination, Bank Examiners, Directors, Examinations.

### Examiner

See Bank Examiners.

### Excess Loans

Loans made by a bank to one customer in excess of the legal maximum amount. Directors of National banks can be held personally liable for losses that may result to a bank as a consequence of making loans to one customer in excess of the legal limit. (See Limitations on Bank Loans.)

### Excess Reserve

The portion of a bank's reserve against deposits in excess of the amount required by

law, whether deposited with a Federal Reserve bank, a designated depository, or in its own vaults. (See Reserves.)

### Exchange

See Domestic Exchange, Foreign Exchange.

### Exchanges

This term has two meanings:

(1) In banking practice, checks, drafts, matured acceptances, notes, etc., presented for collection through a clearing house are known as *Exchanges*, or *Clearing House Exchanges*.

(2) The English term for the market for foreign currencies and bills of exchange. What is known in the United States as foreign exchange is known in England as foreign exchanges.

### Exchanges for Clearing House

An account appearing in a bank's general ledger and financial statement representing the amount of checks drawn upon clearing house banks and collectible on the following business day through the clearing house.

### Exchequer

The official title of the account of the Chancellor of the Exchequer of the United Kingdom with the Bank of England. Its statutory title is *His Majesty's Exchequer*. It is a central account and not directly in contact with the detailed revenue and expenditure accounts. It corresponds in the United States to our Treasury Department accounts with the Federal Reserve banks. It is the account into which the gross revenues of the country are paid and from which expenditures are drawn.

### Exchequer Bills

The name formerly given to the promissory notes of the British Government. They were first issued in 1696 and constituted the chief floating debt of England. They have since been superseded by *Treasury Bills* (q. v.).

### Exchequer Bonds

Bonds issued under the authority of Acts of the British Parliament by the Commissioners of His Majesty's Treasury. Exchequer bonds have a definite term not to exceed six years. The interest is fixed at the time of issue and cannot exceed 5½ per cent. They may be registered in the books

of the Bank of England and certificates of registration given in lieu of coupon bonds.

### Ex-Coupon

Without the next maturing interest coupon attached. Bonds sold ex-coupon have the next maturing coupon already detached.

### Ex-Dividend

Without the dividend, meaning that the right to the pending or accrued dividend is reserved to the seller. The ex-dividend date is the first day the stock sells without the dividend, and on which the quotation for the stock usually measures a decline equal to the value of the dividend.

### Execution

The carrying into effect of an order. Also, the manner in which an order to buy or sell securities is handled. If, in selling securities "at the market," a broker offers them down unduly in order to find a taker, he is said to have given a bad execution. If, on the other hand, the broker is able to obtain a good price in view of market conditions, he is said to have given a good execution.

### Executor

A person, bank, or trust company appointed in a will by the testator to carry out its provisions. Upon the death of the testator the executor must prove the will and take out letters testamentary issued by the court. The next steps are to file the inventory, to appraise the estate, to advertise for claims against the estate, to pay the debts of, and collect the claims due to, the decedent. The executor must account to the court, and bring his executorship to a close by distributing the net assets of the estate to the legatees in accordance with the provisions of the *Will* (q. v.).

### Executrix

The feminine form of *Executor* (q. v.).

### Exhaust Price

First read *Margin*.

One who carries securities on margin has only an equity or partial interest in the securities he is carrying. In case of a fall in prices which threaten the wiping out of the owner's equity or margin, the exhaust price is approached. In other words, the exhaust price is the price at which these securities would have to be sold entirely to

obliterate the margin, or the price at which the broker would have to sell in order to protect himself from loss. Brokers compel their customers to furnish additional margin before the exhaust price is reached, or to enter a stop loss order which may be placed several points above the exhaust price. (See Stop Loss Order.)

### Ex-Interest

Without interest; meaning that the next maturing coupon has been detached. The term is particularly reserved to use in reference to registered bonds.

### Expansion .

A period of business growth, *i. e.*, of increased production and consumption, necessitating an increase in the quantity and rapidity of circulation of money, in the volume of credits, and usually higher prices. If unduly prolonged, expansion may lead to *Inflation* (q. v.). (See Business Cycle.)

### Expense Fund

A fund which the law requires to be created by the organizers of a non-stock or mutual savings bank to provide for current expenses until the bank operates upon a profitable basis, and to meet current interest charges upon deposits. The expense fund represents the savings bank's working capital when it begins operations. In New York state a savings bank must start with an expense fund of at least \$5,000. (See Guaranty Fund.)

### Expiry Date

The date upon which the validity or privilege which may be exercised under a contract or document terminates. This term is usually employed in connection with a letter of credit, option, etc.

### Export Bar

Bars or ingots of pure gold containing about \$8,000 worth of the metal, customarily used in making gold shipments for settlement of international balances. (See Gold Bars.)

### Export Credit

See Letters of Credit.

### Export Letter of Credit

See Letters of Credit.



**Export Specie Point**

See Gold Points.

**Export Trade Act**

See Webb-Pomerene Act.

**Express Company Money Orders**

Money orders or checks issued by an express company for remitting funds to another point by mail. They are a safe, convenient and economical means of transmitting money for those who have no checking account. They are similar in form, purpose and modus operandi to postal money orders issued by the Postoffice Department, but differ in that no written application is required, are payable at any office of the company, and pass from hand to hand by continuous indorsement, without limitation as to number. They are valid for a year before they are required to be presented for final payment. They may be issued in any amount.

**Express Money Orders**

See Express Company Money Orders.

**Ex-Rights**

First read *Rights*.

Without rights. When stock is sold ex-rights all privileges are retained by or reserved to the seller.

**Ex-Stock Dividend**

Without the stock dividend. When stock is sold ex-stock dividend, the pending stock dividend is retained as the property of the seller. (See Stock Dividend.)

**Extended Bonds**

Bonds the payment of the principal of which is postponed. When the repayment of bonds cannot conveniently be met at maturity in cash the bondholders may be offered new bonds to take their place or the old bonds may be extended. In the latter case when the security behind them is not changed, the bonds are said to be extended or continued. Extended bonds are not to be con-

fused with extension bonds. (See Continued Bonds, Extension Bonds.)

**Extension Bonds**

Bonds similar to *Divisional Bonds* (q. v.), but the underlying mortgage of which does not necessarily coincide with the divisions of the issuing organization. Extension bonds usually are covered by railroad property which is a continuation or extension of the existing system. They are frequently secured not only by the extension property, but by a junior lien upon other portions of the property.

As an investment, the strength of extension bonds depends upon whether the extended property is a main line and essential to the handling of through traffic.

Extension bonds should not be confused with *Extended Bonds* (q. v.).

**External Bonds (or Loans)**

When a Government borrows money by floating a bond issue in a foreign country it is said to float an external loan and its bonds are external bonds. The principal and interest of such bonds are issued and payable in the currency of the country in which the bonds are marketed. Such loans are to be distinguished from Internal Bonds which the Government sells to investors within the country. (See Foreign Government Bonds, Internal Bonds.)

**Extinguishment Fund**

Same as *Sinking Fund* (q. v.).

**Extra Dividend**

An additional cash dividend paid out of earnings which are above the normal rate. Whenever dividends are paid out of profits earned at an extraordinary rate, the dividends should be earmarked as extra, so that the stockholders will understand that the additional dividend disbursement is not necessarily to be maintained, and therefore not to be regularly expected. It is a good rule of corporation finance that a regular dividend should not be increased unless there is reason to believe that it can be maintained. (See Dividend.)

## F

### Face Value

Par value; the principal or nominal value appearing on a bond, note, coupon, piece of money, or other instrument. The face value of a bond is the amount at which the issuing organization contracts to repay it at maturity and is the basis upon which the cash interest rate is computed. While it is ordinarily the plan of an issuing organization to float bonds at a rate of interest attractive enough to compel their sale at approximately par, or at a slight discount, when placed on the market they fluctuate in accordance with money rates and in the case of corporation bonds, in accordance with general business conditions and earnings. Whether a bond commands a premium or sells at a discount, the nearer it approaches maturity, the nearer the market value approximates its par value, until at the date of maturity, the two values precisely coincide. Face value is not to be confused with market value, book value, intrinsic value, investment value, or trading value. (See Par Value, Value.)

### Factor

A commission merchant or mercantile agent who has authority to sell, or consign for the purpose of sale, to buy and to advance or borrow money on goods as security, but acting for his principal. He is a middleman whose service is to bring the buyer and seller together and usually has a specialized knowledge of a certain market. He differs from a broker in that he usually has in his possession, or at least carries samples, of the goods he offers for sale. His profit usually consists of a commission, or the difference between the price for which the goods are sold and the price exacted by the principal. (See Agent.)

### Failures

Mortality in business. Commercial or business failures are of three classes, voluntary bankruptcy, involuntary bankruptcy, and insolvency. In the statistical reports prepared by the leading mercantile agencies on this subject, all classes are included. R. G. Dun & Company and Bradstreet's make weekly, monthly, quarterly, and annual re-

ports on the number and amount of liabilities of establishments becoming insolvent in the United States and Canada. This data is available by states, by general classifications of business (manufacturing, trading, etc.), and by lines of business.

In the following table, the total number of business failures in the United States (excepting banking suspensions and personal bankruptcies) from 1893 to 1922, is given.

### BUSINESS FAILURES IN THE UNITED STATES.

(Data furnished by R. G. Dun & Co.)

Years	No. of Failures.	No. of Business Concerns.	Per Cent of Failures
1922	23,676	1,983,106	1.19
1921	19,652	1,927,304	1.02
1920	8,881	1,821,409	.49
1919	6,451	1,710,909	.38
1918	9,982	1,708,061	.58
1917	13,855	1,733,225	.80
1916	16,993	1,707,639	.99
1915	22,156	1,674,788	1.32
1914	18,280	1,655,496	1.10
1913	16,037	1,616,517	.99
1912	15,452	1,564,279	.98
1911	13,441	1,525,024	.81
1910	12,652	1,515,143	.80
1909	12,924	1,486,389	.80
1908	15,690	1,447,554	1.08
1907	11,725	1,418,075	.82
1906	10,682	1,392,949	.77
1905	11,520	1,357,455	.85
1904	12,199	1,320,172	.92
1903	12,069	1,281,481	.94
1902	11,615	1,253,172	.93
1901	11,002	1,219,242	.90
1900	10,774	1,174,300	.92
1899	9,337	1,147,595	.81
1898	12,186	1,105,830	1.10
1897	13,351	1,058,521	1.26
1896	15,088	1,151,579	1.31
1895	13,197	1,209,282	1.09
1894	13,885	1,114,174	1.25
1893	15,242	1,193,113	1.28

In the table, on the following page, failures by branches of business for the five-year period, 1918-1922, are given.

BUSINESS FAILURES CLASSIFIED, 1918-1922

(Data furnished by R. G. Dun & Co.)

	NUMBER										LIABILITIES			AVER- AGE
	1922	1921	1920	1919	1918	1922	1921	1920	1919	1918	1922	1921	1920	
<b>MANUFACTURERS</b>														
Iron, Foundries and Nails.....	82	80	35	23	38	\$8,265,066	\$8,638,413	\$4,083,973	\$1,520,780	\$1,209,374	1918	1919	1920	1922
Machinery and Tools.....	549	461	248	177	193	50,083,639	52,558,701	27,006,318	12,808,454	11,103,534	1918	1919	1920	1922
Woolens, Carpets, &c.....	51	58	18	6	8	2,013,042	2,890,278	1,836,218	94,001	78,869	1918	1919	1920	1922
Cottons, Lace and Hosiery.....	41	58	30	21	26	1,930,135	4,429,966	1,446,678	1,456,138	2,347,417	1918	1919	1920	1922
Lumber, Carpenters & Coopers.....	400	354	207	240	337	17,338,742	17,698,446	13,345,872	4,442,536	9,044,451	1918	1919	1920	1922
Clothing and Millinery.....	919	848	435	174	336	20,608,815	19,959,548	10,551,074	1,721,845	4,066,727	1918	1919	1920	1922
Hats, Gloves and Furs.....	219	186	93	26	34	4,767,825	5,480,916	3,091,431	305,150	415,707	1918	1919	1920	1922
Chemicals and Drugs.....	96	89	45	38	35	5,809,634	3,769,466	3,222,836	1,128,960	1,094,514	1918	1919	1920	1922
Paints and Oils.....	21	20	11	8	15	688,255	943,241	310,416	169,073	188,133	1918	1919	1920	1922
Printing and Engraving.....	171	143	50	59	146	3,343,106	4,858,479	2,509,071	824,870	2,400,808	1918	1919	1920	1922
Milling and Bakers.....	518	385	282	172	175	9,546,021	8,485,800	3,606,130	2,477,628	1,398,853	1918	1919	1920	1922
Leather, Shoes and Harness.....	241	185	91	53	86	4,442,323	4,742,907	3,485,696	895,417	1,922,804	1918	1919	1920	1922
Liquors and Tobacco.....	140	97	61	49	79	3,676,049	7,625,039	1,371,535	934,089	4,593,935	1918	1919	1920	1922
Glass, Earthenware and Brick.....	93	46	26	45	77	3,773,446	3,347,179	1,344,809	1,809,836	3,699,509	1918	1919	1920	1922
All Other.....	2,063	1,505	1,003	774	1,181	78,639,292	87,478,806	50,720,414	20,965,439	29,816,859	1918	1919	1920	1922
Total manufacturing.....	5,682	4,495	2,635	1,865	2,766	\$214,925,388	\$232,907,185	\$127,992,471	\$51,614,216	\$73,381,694	1918	1919	1920	1922
<b>TRADERS</b>														
General Stores.....	2,277	2,277	618	425	593	\$43,634,203	\$43,059,785	\$10,143,829	\$4,412,395	\$4,509,165	1918	1919	1920	1922
Groceries, Meat and Fish.....	3,518	3,007	1,713	1,359	1,969	37,907,194	38,186,071	13,058,862	8,256,917	9,296,954	1918	1919	1920	1922
Hotels and Restaurants.....	741	554	369	324	437	9,236,429	6,281,038	4,175,359	3,138,861	8,728,222	1918	1919	1920	1922
Liquors and Tobacco.....	346	260	160	214	479	3,261,780	1,661,091	1,858,623	1,522,640	3,253,560	1918	1919	1920	1922
Clothing and Furnishing.....	2,043	1,871	566	325	645	31,891,240	29,140,370	7,672,954	2,760,100	5,798,818	1918	1919	1920	1922
Dry Goods and Carpets.....	1,382	1,298	377	206	296	27,029,779	24,646,808	8,094,949	3,073,440	5,108,528	1918	1919	1920	1922
Shoes, Rubbers and Trunks.....	797	589	162	120	174	10,538,546	8,913,982	1,954,013	1,090,104	1,362,692	1918	1919	1920	1922
Furniture and Crockery.....	530	402	74	78	148	8,708,484	5,402,195	743,455	805,037	1,417,118	1918	1919	1920	1922
Hardware, Stoves and Tools.....	484	320	83	81	152	10,502,098	7,867,114	1,431,922	1,211,738	1,390,426	1918	1919	1920	1922
Chemicals and Drugs.....	528	409	112	130	289	5,775,105	4,835,851	914,705	789,261	2,225,692	1918	1919	1920	1922
Paints and Oils.....	75	72	16	21	39	1,185,696	1,764,062	324,963	738,623	294,081	1918	1919	1920	1922
Jewelry and Clocks.....	415	313	103	73	178	7,836,434	5,785,059	1,669,599	699,733	1,644,854	1918	1919	1920	1922
Books and Papers.....	109	52	21	21	42	857,187	458,762	229,287	176,337	400,842	1918	1919	1920	1922
Hats, Furs and Gloves.....	114	125	135	21	32	2,632,053	6,420,668	7,365,158	288,887	370,121	1918	1919	1920	1922
All Other.....	3,578	2,450	1,023	615	1,030	70,591	0,371,425	28,915,669	8,666,364	12,109,898	1918	1919	1920	1922
Total Trading.....	16,923	13,999	5,532	4,013	6,494	\$271,388,107	\$254,794,285	\$88,558,347	\$37,670,443	\$57,910,971	1918	1919	1920	1922
Agents, Brokers, etc.....	1,071	1,158	714	573	722	737,582,756	739,700,413	78,570,987	24,006,578	31,727,3	1918	1919	1920	1922
Total Commercial.....	23,676	19,652	8,881	6,451	9,982	\$623,896,251	\$627,401,883	\$295,121,805	\$113,291,237	\$163,019,9	1918	1919	1920	1922
Total.....	40,659	34,694	13,517	10,464	16,478	\$838,821,639	\$887,398,470	\$423,114,276	\$164,905,453	\$236,401,613	1918	1919	1920	1922



In the following table, bank failures in the United States for the period 1893-1922, are given:

BANK FAILURES IN THE UNITED STATES,  
(Data furnished by R. G. Dun & Co.)

Year	No.	1893-1922.	
		TOTAL. Liab., Dols.	NATIONAL. No. Liab., Dols.
1922	277	\$77,735,551	....
1921	404	173,027,776	....
1920	119	50,708,300	10 \$ 3,350,000
1919	50	16,520,862	4 1,850,000
1918	20	5,131,887	0 None
1917	42	18,451,964	4 3,700,000
1916	50	10,396,779	8 1,755,000
1915	133	37,223,234	18 13,649,000
1914	212	56,005,107	19 9,606,098
1913	120	31,546,314	7 5,197,336
1912	79	24,219,522	4 8,313,000
1911	107	25,511,606	3 1,250,000
1910	119	41,097,255	10 4,284,482
1909	80	24,677,128	11 4,109,224
1908	180	123,126,956	31 48,388,000
1907	132	233,325,972	12 12,533,000
1906	58	18,805,380	8 1,490,966
1905	78	20,227,155	16 4,198,348
1904	99	28,158,811	24 10,257,223
1903	121	29,685,766	12 5,735,477
1902	63	10,969,072	2 420,617
1901	74	18,018,774	9 5,666,231
1900	58	14,456,563	5 1,312,721
1899	55	27,116,790	10 7,106,567
1898	80	18,395,094	11 4,102,290
1897	171	28,249,700	28 5,977,421
1896	198	50,718,915	34 22,674,512
1895	132	20,710,210	34 5,863,842
1894	125	125,666,035	18 4,803,616
1893	642	210,998,808	161 67,673,894

The ratio of business failures to total establishments has averaged about 1 per cent. per year over a long period of years. The highest ratio since data have been collected was in 1878 at 1.55 per cent. The year 1915 has the next highest record. In recent years, 1919 has the lowest record.

Business failures are usually regarded as an important business barometer, but are at a disadvantage since they lag behind the causes of which they are the effects. Business failures tend to increase some time subsequent to a period of falling prices and depression, and to decrease at times of rising or stable prices and prosperity.

As analyzed in studies by Bradstreet's, business failures may be assigned to the following causes arranged in approximate order of importance, *viz.*: lack of capital, incompetence, specific conditions, fraud, inexperience,

competition, neglect, unwise credits, failure of others, extravagance, speculation. (See Business Barometers.)

**False Prospectus Acts**

See False Statement Acts.

**False Reports**

Directors of banks are responsible for issuing false reports. The reports required of a National bank by the Comptroller of the Currency are intended not only for his information, but for that of the public. One who buys bank stock out of reliance upon a published false statement and as a consequence sustains loss, has a right of action against the directors or officers who knowingly authorized the publication of such a report.

**False Statement Acts**

In recent years the requirement of banks that prospective borrowers submit a recent financial statement or series of statements as a basis for a loan, has become almost universally adopted. The process of granting credit has become more scientific and this requirement has grown out of recognition that there is no better guide for scientifically measuring credit risks, provided they are accurate and free from wilfully false valuations. The statement should show the condition to be no better than the actual one. Accordingly a number of states, including New York and Massachusetts, have enacted False Statement Acts which impose penalties upon any corporation, partnership, or individual which misrepresents its true condition in a statement for the purpose of securing credit or marketing its securities. This enables the credit men of a bank to concentrate their attention upon the scientific analysis of the risk as disclosed by the statement instead of merely "checking" its accuracy, and prevents unscrupulous promoters from misrepresenting the facts concerning any securities they may be marketing.

**Farm Credits Act**

An act approved March 4, 1923, which creates two classes of corporations designed to improve agricultural credit. These two classes of corporations are the Federal Intermediate Credit banks and the National Agricultural Credit Corporations. This system of credit institutions, like the *Federal Farm Loan System* (q. v.) is under the general supervision of the Federal Farm Loan

Board but is for the purpose of discounting farmers' notes taken by local banks on personal and chattel security, *e. g.*, live stock, farm equipment, growing crops, etc., as distinguished from the Federal land banks and joint-stock land banks, which lend on land mortgage security.

The following is the text of the act. It will be noted that it automatically amends both the Federal Farm Loan Act and the Federal Reserve Act.

An Act To provide additional credit facilities for the agricultural and live-stock industries of the United States; to amend the Federal Farm Loan Act; to amend the Federal Reserve Act; and for other purposes. *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

TITLE I.—FEDERAL INTERMEDIATE  
CREDIT BANKS

SECTION 1. That section 1 of the Federal Farm Loan Act is amended to read as follows:

"TITLE I.—FEDERAL FARM LOANS

"SECTION 1. That this Act may be cited as the 'Federal Farm Loan Act.' Its administration shall be under the direction and control of the Federal Farm Loan Board hereinafter created."

SEC. 2. That the Federal Farm Loan Act is amended by adding at the end thereof a new title, to read as follows:

"TITLE II.—FEDERAL INTERMEDIATE  
CREDIT BANKS

"ORGANIZATION

"SEC. 201. (a) That the Federal Farm Loan Board shall have power to grant charters for 12 institutions to be known and styled as 'Federal Intermediate Credit Banks.'

"(b) Such institutions shall be established in the same cities as the 12 Federal Land Banks. The officers and directors of the several Federal Land Banks shall be ex officio officers and directors of the several Federal Intermediate Credit Banks hereby provided for and shall have power to employ and pay all clerks, bookkeepers, accountants and other help necessary to carry on the business authorized by this title.

"(c) Each Federal Intermediate Credit Bank shall have all the usual powers of corporations, and shall have power to sue and be sued both in law and equity, and for purposes of jurisdiction shall be deemed a citizen of the State where it is located.

"(d) Federal Intermediate Credit Banks, when designated for that purpose by the Secretary of the Treasury, shall act as fiscal agents of the United States Government and perform such duties as shall be prescribed by the Secretary of the Treasury.

"(e) Upon default of any obligation any Federal Intermediate Credit Bank may be declared insolvent and placed in the hands of a receiver by the Federal Farm Loan Board, and proceedings shall thereupon be had in accordance with the provisions of section 29 of this Act regarding National Farm Loan Associations.

"(f) The charters to such Federal Intermediate Credit Banks shall be granted upon application of the directors of the Federal Land Banks which application shall be in such form as the Federal Farm Loan Board shall prescribe.

DISCOUNT AND LOANS

"SEC. 202. (a) That Federal Intermediate Credit Banks, when chartered and established, shall have power, subject solely to such restrictions, limitations, and conditions as may be imposed by the Federal Farm Loan Board not inconsistent with the provisions of this Act,—

(1) To discount for, or purchase from, any national bank, and/or any State bank, trust company, agricultural credit corporation, incorporated live-stock loan company, savings institution, cooperative bank, cooperative credit or marketing association of agricultural producers, organized under the laws of any State, and/or any other Federal Intermediate Credit Bank, with its indorsement, any note, draft, bill of exchange, debenture, or other such obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose or for the raising, breeding, fattening, or marketing of live stock;

(2) To buy or sell, with or without recourse, debentures issued by any other Federal Intermediate Credit Bank; and

(3) To make loans or advances direct to any cooperative association organized under the laws of any State and composed of persons engaged in producing, or producing and marketing, staple agricultural products, or live stock, if the notes or other such obligations representing such loans are secured by warehouse receipts, and/or shipping documents covering such products, and/or mortgages of live stock; *Provided*, That no such loan or advance shall exceed 75 per centum of the market value of the products covered by said warehouse receipts and/or shipping documents, or of the live stock covered by said mortgages.

"(b) No paper shall be purchased from or discounted for any national bank, State bank, trust company, or savings institution under this section, if the amount of such paper added to the aggregate liabilities of such national bank, State bank, trust company or savings institution, whether direct or contingent (other than bona fide deposit liabilities), exceeds the amount of such liability permitted under the laws of the jurisdiction creating the same; or exceeds twice the paid in and unimpaired capital and surplus of such national bank, State bank, trust company, or savings institution. No paper shall under this section be purchased from or discounted for any other corporation engaged in making loans for agricultural purposes or for the raising, breeding, fattening, or marketing of live stock, if the amount of such paper added to the aggregate liabilities of such corporation exceeds the amount of such liabilities permitted under the laws of the jurisdiction creating the same; or exceeds ten times the paid in and unimpaired capital and surplus of such corporation. It shall be unlawful for any national bank which is indebted to any Federal Intermediate Credit Bank upon paper discounted or purchased under this section, to incur any additional indebtedness, if by virtue of such additional indebtedness its aggregate liabilities, direct or contingent, will exceed the limitations herein contained."

(c) Loans, advances, or discounts made under this section shall have a maturity at the time they are made or discounted by the Federal Intermediate Credit Bank of not less than six months nor more than three years. Any Federal Intermediate Credit Bank may in its discretion sell loans or discounts made under this section, with or without its indorsement.

(d) Rates of interest or discount charged by the Federal Intermediate Credit banks upon such loans and discounts shall be subject to the approval of the Federal Farm Loan Board. On the majority vote of the members of the Federal Farm Loan Board any Federal Intermediate Credit Bank shall be required to rediscount the discounted paper of any other Federal Intermediate Credit Bank at rates of interest to be fixed by the Federal Farm Loan Board.

ISSUE OF DEBENTURES

"SEC. 203. (a) That Federal Intermediate Credit Banks, when chartered and established, shall have power, subject to the approval of the Federal Farm Loan Board, to borrow money and to issue and to sell collateral trust debentures or other similar obligations with a maturity at the time of issue of not more than five years, which shall be secured by at least a like face amount of cash, or notes or other such obligations discounted or purchased or representing loans made



under section 202: *Provided*, That no Federal Intermediate Credit Bank shall have power to issue or obligate itself for debentures or other obligations under the provisions of this section in excess of ten times the amount of the paid-up capital and surplus of such bank.

(b) The provisions of Title I relating to the preparation and issue of farm loan bonds shall, so far as applicable, govern the preparation and issue of debentures or other such obligations issued under this section; but the Federal Farm Loan Board shall prescribe rules and regulations governing the receipt, custody, substitution, and release of collateral instruments securing such debentures or other obligations, the right of substitution being hereby granted. Rates of interest upon debentures and other such obligations issued under this section shall, subject to the approval of the Federal Farm Loan Board, be fixed by the Federal Intermediate Credit Bank making the issue, not exceeding 6 per centum per annum.

(c) The United States Government shall assume no liability, direct or indirect, for any debentures or other obligations issued under this section, and all such debentures and other obligations shall contain conspicuous and appropriate language, to be prescribed in form and substance by the Federal Farm Loan Board and approved by the Secretary of the Treasury, clearly indicating that no such liability is assumed.

#### DISCOUNT RATES

"SEC. 204. (a) That before making any discounts under the provisions of this title, each Federal Intermediate Credit Bank shall establish and promulgate a rate of discount to be approved by the Federal Farm Loan Board. Any Federal Intermediate Credit Bank which has made an issue of debentures under the provision of this title may thereafter establish, with the approval of the Federal Farm Loan Board, a rate of discount not exceeding by more than 1 per centum per annum the rate borne by its last preceding issue of debentures.

(b) No organization entitled to the privileges of this title, shall, without the approval of the Federal Farm Loan Board, be allowed to discount with any Federal Intermediate Credit Bank any note or other obligation, upon which the original borrower has been charged a rate of interest exceeding by more than  $1\frac{1}{2}$  per centum per annum the discount rate of the Federal Intermediate Credit Bank at the time such loan was made.

(c) A Federal Intermediate Credit Bank may, subject to the approval of the Federal Farm Loan Board, buy in the open market at or below par for its own account and retire at or before maturity any such debentures or obligations issued by it.

#### CAPITAL STOCK

"SEC. 205. That for the purpose of exercising the powers conferred by this title, each Federal Intermediate Credit Bank shall have a subscribed capital stock of \$5,000,000. Capital stock of such amount shall be divided into shares of \$5 each and shall be subscribed, held, and paid by the Government of the United States. It shall be the duty of the Secretary of the Treasury to subscribe to such capital stock on behalf of the United States, such subscription to be subject to call in whole or in part by directors of the said banks upon 30 days' notice to the Secretary of the Treasury and with the approval of the Federal Farm Loan Board. The Secretary of the Treasury is authorized and directed to take out shares as called and to pay for the same out of any money in the Treasury not otherwise appropriated.

#### APPLICATION OF EARNINGS

"SEC. 206. (a) That the Federal Farm Loan Board shall equitably apportion the joint expenses incurred in behalf of Federal Land Banks, Joint Stock Land Banks, and Federal Intermediate Credit Banks, and shall assess against each Federal Intermediate Credit Bank its proportionate share of the expenses of any additional personnel in the Federal Farm Loan Bureau made necessary in connection with the operation of this provision.

(b) After all necessary expenses of a Federal Intermediate Credit Bank have been paid or pro-

vided for, the net earnings shall be divided into equal parts and one-half thereof shall be paid to the United States and the balance shall be paid into a surplus fund until it shall amount to 100 per centum of the subscribed capital stock of such bank and that thereafter 10 per centum of such earnings shall be paid into the surplus. After the aforesaid requirements have been fully met, the then net earnings shall be paid to the United States as a franchise tax. The net earnings derived by the United States from Federal Intermediate Credit Banks shall in the discretion of the Secretary of the Treasury, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury. Should a Federal Intermediate Credit Bank be dissolved or go into liquidation, after the payment of all debts and other obligations as hereinbefore provided, any surplus remaining shall be paid to and become the property of the United States and shall be similarly applied.

#### LIABILITY ON DEBENTURES

"SEC. 207. That any Federal Intermediate Credit Bank issuing debentures or other such obligations under this title shall be primarily liable therefor, and shall also be liable, upon presentation of the coupons for interest payments due upon any such debentures or obligations issued by any other Federal Intermediate Credit Bank and remaining unpaid in consequence of the default of the other Federal Intermediate Credit Bank. Any Federal Intermediate Credit Bank shall likewise be liable for such portion of the principal of debentures or obligations so issued as are not paid after the assets of such other Federal Intermediate Credit Bank have been liquidated and distributed. Such losses, if any, either of interest or of principal, shall be assessed by the Federal Farm Loan Board against solvent Federal Intermediate Credit Banks liable therefor in proportion to the amount of capital stock, surplus, and debentures or other such obligations which each may have outstanding at the time of such assessment. Every Federal Intermediate Credit Bank shall, by appropriate action of its board of directors duly recorded in its minutes, obligate itself to become liable on debentures and other such obligations as provided in this section.

#### EXAMINATIONS AND REPORTS

"SEC. 208. (a) That in order to enable each Federal Intermediate Credit Bank to carry out the purpose of this title, the Comptroller of the Currency is hereby authorized and directed, upon the request of any Federal Intermediate Credit Bank, (1) to furnish for the confidential use of such bank such reports, records, and other information, as he may have available, relating to the financial condition of national banks through or for which the Federal Intermediate Credit Bank has made or contemplates making discounts, and (2) to make through his examiners, for the confidential use of the Federal Intermediate Credit Bank, examinations of organizations through or for which the Federal Intermediate Credit Bank has made or contemplates making discounts or loans: *Provided*, That no such examination shall be made without the consent of such organization except where such examination is required by law: *Provided*, That any organization, except State banks, trust companies and savings associations, shall, as a condition precedent to securing rediscount privileges with the Federal Intermediate Credit Bank of its district, file with such bank its written consent to its examination as may be directed by the Federal Farm Loan Board by land bank examiners; and State banks, trust companies and savings associations may be in like manner required to file their written consent that reports of their examination by constituted authorities may be furnished by such authorities upon request of the Federal Intermediate Credit Bank of their district. Each Federal Intermediate Credit Bank shall be examined and audited at least once each year by the Federal Farm Loan Board, and the results of such



examination and audit shall be made public by the board.

(b) Every Federal Intermediate Credit Bank shall make to the Federal Farm Loan Board not less than three reports during each year as requested by the board and according to the form which may be prescribed by the board, verified by the oath or affirmation of the president, or secretary, or treasurer, of each Federal Intermediate Credit Bank and attested by the signature of at least three of the directors. Each report shall exhibit, in detail and under appropriate heads, the resources and liabilities of the Federal Intermediate Credit Bank at the close of business on any past day specified by the Federal Farm Loan Board within five days from the receipt of a request or requisition therefor from the board, and in the same form in which it is made to the Federal Farm Loan Board shall be published in a newspaper published in the place where such Federal Intermediate Credit Bank is established, or if there is no newspaper in the place, then in the one published nearest thereto, in the same county, at the expense of the bank; and such proof of publication shall be furnished as may be required by the Federal Farm Loan Board. The Federal Farm Loan Board shall also have power to call for special reports from any particular Federal Intermediate Credit Bank whenever in its judgment the same are necessary for a full and complete knowledge of its condition.

(c) Land bank appraisers are authorized, upon the request of any Federal Intermediate Credit Bank and with the approval of the Federal Farm Loan Board, to investigate and make a written report upon the products covered by warehouse receipts or shipping documents, and the live stock covered by mortgages, which are security for notes or other such obligations representing any loan to any organization, under this title. Land bank examiners are authorized, upon the request of any Federal Intermediate Credit Bank and with the approval of the Federal Farm Loan Board, to examine and make a written report upon the condition of any organization, except national banks, to which the Federal Intermediate Credit Bank contemplates making any such loan.

(d) The Federal Farm Loan Board shall assess the cost of all examinations made by the examiners of the board under the provisions of this title, upon the bank, trust company, savings institution, or organization investigated, in accordance with the regulations to be prescribed by the board.

#### RULES AND REGULATIONS

"SEC. 209. That the Federal Farm Loan Board is authorized to make such rules and regulations, not inconsistent with law, as it deems necessary for the efficient execution of the provisions of this title.

#### TAX EXEMPTION

"SEC. 210. That the privileges of tax exemption accorded under section 26 of this Act shall apply also to each Federal Intermediate Credit Bank, including its capital, reserve, or surplus, and the income derived therefrom, and the debentures issued under this title shall be deemed and held to be instrumentalities of the Government and shall enjoy the same tax exemptions as are accorded farm loan bonds in said section.

#### "PENALTY PROVISIONS

"SEC. 211. (a) That any officer, director, agent, or employee of a Federal Intermediate Credit Bank who embezzles, abstracts, purloins, or willfully misapplies any of the moneys, funds, or credits of such bank, or who, without authority from such bank, draws any order or bill of exchange, makes any acceptance, issues, puts forth, or assigns any note, debenture, bond, draft, bill of exchange, mortgage, judgment, or decree, or who makes any false entry in any book, report, or statement of such bank with intent in any case to injure or defraud such bank or any other company or person, or to deceive any officer of such bank or the Federal Farm Loan Board, or any agent or examiner appointed to examine the affairs of such bank; and every receiver of such bank who with like intent to defraud or injure embezzles, abstracts,

purloins, or willfully misapplies any of the moneys, funds, or assets of such bank, and every person who with like intent aids or abets any officer, director, agent, employee, or receiver in any violation of this section, shall be deemed guilty of a misdemeanor, and upon conviction thereof in any district court of the United States, shall be fined not more than \$5,000, or shall be imprisoned for not more than five years, or both, at the discretion of the court.

"(b) Whoever makes any statement, knowing it to be false, for the purpose of obtaining for himself or for any other person, firm, corporation, or association any advance, or extension or renewal of an advance, or any release or substitution of security from such bank, or for the purpose of influencing in any other way the action of such bank, shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than five years, or both.

"(c) Whoever willfully overvalues any property offered as security for any such advance shall be punished by a fine of not more than \$5,000, or by imprisonment for not more than two years, or both.

"(d) Any examiner appointed under this Act who shall accept a loan or gratuity from any organization examined by him, or from any person connected with any such organization in any capacity, or who shall disclose the names of borrowers to other than the proper officers of such organization, without first having obtained express permission in writing from the Farm Loan Commissioner or from the board of directors of such organization, except when ordered to do so by a court of competent jurisdiction or by direction of the Congress of the United States or of either House thereof, or any committee of Congress or of either House duly authorized, shall be punished by a fine of not exceeding \$5,000, or by imprisonment of not exceeding one year, or both, and may be fined a further sum equal to the money so loaned or gratuity given, and shall forever thereafter be disqualified from holding office as an examiner under the provisions of this Act. No examiner while holding such office shall perform any other service for compensation for any bank or banking or loan association or for any person connected therewith in any capacity.

"(e) Whoever, being an officer, director, employee, agent or attorney of a Federal Intermediate Credit Bank, stipulates for or receives or consents or agrees to receive any fee, commission, gift, or thing of value, from any person, firm, or corporation for procuring or endeavoring to procure for such person, firm, or corporation, or for any other person, firm, or corporation any loan from any such corporation or extension or renewal of loan or substitution of security, or the purchase or discount or acceptance of any paper, note, draft, check, or bill of exchange by any such corporation, shall be deemed guilty of a misdemeanor and shall upon conviction thereof be imprisoned for not more than one year and fined not more than \$5,000, or both.

"(f) Any person who shall falsely make, forge, or counterfeit or cause or procure to be falsely made, forged, or counterfeited, or willingly aid or assist in falsely making, forging, or counterfeiting any debenture, coupon, or other obligation in imitation of or purporting to be in imitation of the debenture, coupon, or other obligation issued by any Federal Intermediate Credit Bank, or any person who shall pass, utter, or publish or attempt to pass, utter, or publish any false, forged or counterfeited, debenture, coupon, or other obligation purporting to be issued by any such bank knowing the same to be falsely made, forged, or counterfeited, or any person who shall falsely alter or cause or procure to be falsely altered or shall willingly aid or assist in falsely altering any such debenture, coupon, or other obligation or who shall pass, utter or publish as true any falsely altered or spurious debenture, coupon, or other obligation issued or purporting to have been issued by any such bank knowing the same to be falsely altered or spurious, shall be punished by a fine of not exceeding \$5,000 or by imprisonment not to exceed five years, or both.

"(g) Any person who shall deceive, defraud, or impose upon or who shall attempt to deceive, defraud or impose upon any person, partnership, corporation, or association by making any false pretense or representation concerning the character, issue, security, contents, conditions, or terms of any debenture, coupon, or other obligation issued under the terms of this title, shall upon conviction be fined not exceeding \$500, or imprisoned not to exceed one year, or both.

"(h) All corporations not organized under the provisions of this title are prohibited from using the words 'Federal Intermediate Credit Bank' as part of their corporate name, and any violation of this prohibition shall subject the party charged therewith to a civil penalty of \$50 for each day during which the violation continues.

"Sec. 212. That no Federal Intermediate Credit Bank shall charge or receive any fee, commission, bonus, gift, or other consideration not herein specifically authorized."

## TITLE II. — NATIONAL AGRICULTURAL CREDIT CORPORATIONS

### FORMATION

SEC. 201. That corporations for the purpose of providing credit facilities for the agricultural and live-stock industries of the United States, to be known as National Agricultural Credit Corporations, may be formed by any number of natural persons not less in any case than five. Such persons shall enter into articles of association which shall specify the object for which the corporation is formed. Such articles of association shall be signed by the persons intending to participate in the organization of the corporation and be forwarded to the Comptroller of the Currency to be filed and preserved in his office.

### REQUISITES OF ARTICLES AND CERTIFICATE

SEC. 202. (a) That persons signing such articles of association shall make an organization certificate which shall specifically state the name of the corporation to be organized, the place where its office is to be located, the State or States in which its operations are to be carried on, the amount of its capital stock, and the number of shares into which the same shall be divided, and that the certificate is made to enable the subscribers to avail themselves of the advantages of this title.

(b) The name of each corporation organized under this title shall include the words "National Agricultural Credit Corporation."

(c) The organization certificate and articles of association shall be acknowledged before some judge of a court of record or notary public and shall, together with the acknowledgment thereof duly authenticated by the seal of such court or notary, be transmitted to the Comptroller of the Currency, who shall file, record, and carefully preserve the same in his office.

(d) Upon making and filing the articles of association and organization certificate with the Comptroller of the Currency, and when the Comptroller of the Currency has approved the same and issued a written permit to begin business, the corporation shall be and become a body corporate, and shall have power—

(1) To adopt and use a corporate seal.

(2) To have succession for a period of 50 years unless sooner dissolved by the act of shareholders owning two-thirds of its stock or by Act of Congress or unless its charter shall be forfeited for violation of law.

(3) To make contracts.

(4) To sue and be sued, complain and defend in any court of law or equity, and for purposes of jurisdiction shall be deemed a citizen of the State where it is located.

(5) To elect or appoint directors and by its board of directors to appoint such officers and employees as may be deemed proper; to define their authority and duties; to fix their salaries; in its discretion to require bonds of any of them and to fix the penalty thereof; and to dismiss at pleasure any of such officers or employees.

(6) To prescribe by its board of directors by-laws not inconsistent with law or the regulations

of the Comptroller of the Currency defining the manner in which its general business may be conducted, its shares of stock be transferred, its directors and officers be elected or appointed, its property transferred, and the privileges granted to it by law be exercised and enjoyed.

(7) To exercise by its board of directors or duly authorized officers or agents all powers specifically granted by the provisions of this title, and such incidental powers as shall be necessary to carry on the business for which it is incorporated, within the limitations prescribed by this title, but such corporation shall transact no business except such as is incidental and necessarily preliminary to its organization until authorized in writing by the Comptroller of the Currency to commence business under the provisions of this title.

(8) The affairs of each National Agricultural Credit Corporation shall be managed by not less than five directors, who shall be elected by the stockholders at a meeting to be held at any time before the corporation is authorized by the Comptroller of the Currency to commence business, and afterwards at meetings to be held on such day in January of each year as may be provided in the articles of association. The directors so elected shall hold office for one year, and until their successors are elected and have qualified. Every director and other officer of the corporation shall, before entering upon the duties of his office, take and subscribe an oath before a notary public or other official having a seal and authorized to administer oaths, conditioned for the faithful performance of the duties of his office. Such oath shall be in such form as may be prescribed by the Comptroller of the Currency, and shall be filed in the office of the Comptroller of the Currency. Any vacancy in the board shall be filled by appointment by the remaining directors, and any director so appointed shall hold his place until the next election.

SEC. 203. (a) That each National Agricultural Credit Corporation shall have power, under such rules and regulation as the Comptroller of the Currency may prescribe—

(1) To make advances upon, to discount, rediscount, or purchase, and to sell or negotiate, with or without its indorsement or guaranty, notes, drafts, or bills of exchange, and to accept drafts or bills of exchange which—

(A) Are issued or drawn for an agricultural purpose, or the proceeds of which have been or are to be used for an agricultural purpose;

(B) Have a maturity, at the time of discount, purchase, or acceptance, not exceeding nine months; and

(C) Are secured at the time of discount, purchase, or acceptance by warehouse receipts or other like documents conveying or securing title to non-perishable and readily marketable agricultural products, or by chattel mortgages or other like instruments conferring a first and paramount lien upon live stock which is being fattened for market.

(2) To make advances upon or to discount, rediscount, or purchase, and to sell or negotiate with or without its indorsement or guaranty, notes secured by chattel mortgages conferring a first and paramount lien upon maturing or breeding live stock or dairy herds, and having a maturity at the time of discount, rediscount, or purchase not exceeding three years.

(3) To subscribe for, acquire, own, buy, sell, and otherwise deal in Treasury certificates of indebtedness, bonds or other obligations of the United States to such extent as its board of directors may determine.

(4) To act, when requested by the Secretary of the Treasury, as fiscal agent of the United States, and to perform such services as the Secretary of the Treasury may require in connection with the issue, sale, redemption or repurchase of bonds, notes, Treasury certificates of indebtedness, or other obligations of the United States.

(5) To purchase, hold, acquire, and dispose of shares of the capital stock of any corporation organized under the provisions of section 207, of this title, in an amount not to exceed at any time 20 per centum of its paid in and unimpaired capital and surplus.



(6) To purchase, hold, and convey real estate for the following purposes, and for no others:

(A) Such as shall be necessary for its accommodation in the transaction of its business.

(B) Such as shall be mortgaged to it in good faith by way of security for debts previously contracted.

(C) Such as shall be conveyed to it in satisfaction of loans or advances made or debts previously contracted in the course of its dealings.

(D) Such as it shall purchase at sales under judgments, decrees, or mortgages held by the corporation or shall purchase to secure debts due to it.

(7) To act as custodian, trustee, or agent for holders of notes, drafts, or bills of exchange sold or negotiated under paragraphs (1) and (2) of subdivision (a) of this section or under section 207.

(8) To issue, subject to such regulations as the Comptroller of the Currency may prescribe, collateral trust notes or debentures, with a maturity not exceeding three years, and to pledge as security for such notes or debentures any notes, drafts, bills of exchange, or other securities held by the corporation under the terms of this title. The regulations of the Comptroller of the Currency may prescribe the form of notes or debentures, and of notes, drafts, bills of exchange, warehouse receipts, chattel mortgages, or other instruments which may be pledged as security therefor, the provisions which may be made with regard to release, substitution, or exchange of such securities, and with regard to protection, supervision, inspection, and reinspection of the agricultural commodities or live stock pledged or mortgaged as security therefor.

(b) The United States Government shall assume no liability, direct or indirect, for any debentures or other obligations issued under this title, and all such debentures and other obligations shall contain conspicuous and appropriate language, to be prescribed in form and substance by the Comptroller of the Currency and approved by the Secretary of the Treasury, clearly indicating that no such liability is assumed.

(c) Any obligation referred to in paragraphs (1) or (2) of sub-division (a) of this section, which is secured by chattel mortgage upon live stock of an estimated market value at least equal to the face amount of such obligation, may be additionally secured by mortgage or deed of trust upon real estate or by other securities, under such regulations as may be made by the Comptroller of the Currency.

#### LIMITATIONS

SEC. 204. Except as hereinafter provided in section 207 of this title, no National Agricultural Credit Corporation shall incur liabilities, whether direct or contingent, in excess of ten times its paid in and unimpaired capital and surplus; nor shall any such corporation make advances to or hold notes or other direct obligations of any person or corporation or have outstanding acceptances for any person or corporation, in an amount exceeding 20 per centum of the paid in and unimpaired capital and surplus of such corporation, unless such advances, notes, acceptances, or other obligations are adequately secured by warehouse receipts representing readily marketable and nonperishable agricultural commodities, in which event the amount of such advances to, or notes or other direct obligations of, or acceptances for, such one person, association, or corporation shall not exceed 50 per centum of such paid in and unimpaired capital and surplus. No such corporation shall purchase, own, or deal in any live stock except live stock taken in the course of liquidation of obligations held by it.

#### INTEREST RATES

SEC. 205. (a) Any National Agricultural Credit Corporation may charge on any loan or discount made, or upon any note, bill of exchange, or other evidence of debt, interest at the rate allowed by the laws of the State in which such corporation is located.

(b) The taking, receiving, reserving, or charging a rate of interest greater than is allowed by sub-division (a), when knowingly done, shall be

deemed a forfeiture of the entire interest which the note, bill, or other evidence of debt carries with it or which has been agreed to be paid thereon. In case the greater rate of interest has been paid, the person by whom it has been paid, or his legal representative, may recover back in an action in the nature of an action for debt twice the amount of the interest thus paid from the corporation taking or receiving the same, provided such action is commenced within two years from the time the usurious interest was collected.

#### CAPITAL STOCK

SEC. 206. (a) That no National Agricultural Credit Corporation shall be permitted to commence business with a paid in capital of less than \$250,000; and no permit to begin business shall be issued to any such corporation by the Comptroller of the Currency until there shall have been filed with him a certificate signed by the president or treasurer and by individuals comprising a majority of the board of directors of such corporation showing that at least 50 per centum of the authorized capital stock of such corporation has been paid in in cash; and the remainder of the capital stock of such corporation shall be paid in installments of at least 10 per centum each on the whole amount of the capital, and the entire authorized capital stock shall be paid in within six months from the date upon which such corporation shall be authorized by the Comptroller of the Currency to commence business. The payment of each installment shall be certified to the Comptroller of the Currency under oath by the president or cashier of such corporation.

(b) The capital stock of any such corporation may be increased at any time with the approval of the Comptroller of the Currency by a vote of two-thirds of the holders of its issued and outstanding capital stock, or by written consent of all of its shareholders without a meeting and without a formal vote; and may be reduced in like manner: *Provided*, That in no event shall such capital stock be reduced to an amount less than one-tenth of its then outstanding indebtedness, direct or contingent, or to an amount less than \$250,000, nor without at the same time reducing proportionately outstanding liabilities. No National Agricultural Credit Corporation, except as herein provided, shall withdraw or permit to be withdrawn, either in the form of dividends or otherwise, any portion of its paid in capital, and section 5204 of the Revised Statutes, prohibiting the payment of unearned dividends or the withdrawal of capital of national banks, shall be held to apply to National Agricultural Credit Corporations.

(c) The provisions and limitations contained in section 5139 of the Revised Statutes, relative to transfer of the shares of the capital stock of national banks, shall apply to National Agricultural Credit Corporations.

(d) Whenever any shareholder of his assign fails, upon demand of the Comptroller of the Currency, to pay his subscription or any part thereof on stock of any National Agricultural Credit Corporation subscribed to by him, the directors of the corporation, after 15 days' notice, shall proceed in the manner prescribed by section 5141 of the Revised Statutes for the collection of unpaid subscriptions to stock of national banks.

(e) Section 5144 of the Revised Statutes, which relates to the right of shareholders of National banks to vote by proxy, shall be held to apply to shareholders of National Agricultural Credit Corporations.

#### REDISCOUNT CORPORATIONS

SEC. 207. (a) That National Agricultural Credit Corporations having an authorized capital stock of \$1,000,000 or over may be organized under the provisions of this title, to exercise all the powers enumerated in section 203, except that in lieu of the powers conferred in paragraphs (1) and (2) of sub-division (a) of such section, such corporations shall have powers,—

(1) Upon the indorsement of any National Agricultural Credit Corporation, or of any bank or trust company which is a member of the Federal



Reserve System, to rediscount for such corporation, bank, or trust company, notes, drafts, bills of exchange, and acceptances, which conform to the requirements of paragraphs (1) and (2) of subdivision (a) of section 203. Such indorsement shall be deemed to be a waiver of demand notice and protest by such corporation as to its own indorsement exclusively.

(2) To discount or purchase notes, drafts, or bills of exchange issued or drawn by cooperative associations of producers of agricultural products, provided such notes, drafts, or bills of exchange are secured at the time of discount or purchase by warehouse receipts or other like documents conveying or securing title to nonperishable and readily marketable agricultural products, and have a maturity at the time of discount or purchase not exceeding nine months.

(3) To sell or negotiate with or without recourse any note, draft, or bill of exchange discounted or purchased hereunder.

(b) National Agricultural Credit Corporations organized under the provisions of this section, shall not be subject to the limitations contained in section 204, but the Comptroller of the Currency may, by general regulations, from time to time prescribe the amount of indebtedness, direct or contingent, which such corporations may incur, and the aggregate amount of paper of different types which such corporations may rediscount for any one corporation.

(c) Corporations with powers limited, as provided in this section, shall not be subject to the requirements as to deposit of bonds or other obligations of the United States, as provided in section 208 of this title.

#### PERMIT TO BEGIN BUSINESS

SEC. 208. (a) That no National Agricultural Credit Corporation, except corporations with powers limited as provided in section 207, shall commence business until it has deposited with the Federal Reserve bank of the district wherein it has its place of business, bonds or other obligations of the United States in an aggregate face amount at least 25 per centum of its paid in capital stock. Each such corporation shall at all times keep on deposit with such Federal Reserve bank an amount of such bonds or other obligations of the United States at least equal in face value to 7½ per centum of the aggregate indebtedness of such corporation, direct or contingent, said amount to include the 25 per centum deposited as hereinbefore by this section provided. Except as hereinafter provided, such bonds or other obligations shall be held by such Federal Reserve bank, subject to the direction and control of the Comptroller of the Currency, in trust for the equal and pro rata protection and benefit of all holders of notes, debentures, drafts, bills of exchange, or acceptances upon which such corporation may be directly or contingently liable. Upon receipt of proper evidence that the amount of such bonds or other obligations of the United States so deposited exceeds 7½ per centum of such aggregate indebtedness, the Comptroller of the Currency may release such excess, provided that the amount remaining on deposit shall in no event be reduced below 25 per centum of the paid in capital stock of such corporation. Under such regulations as the Comptroller of the Currency may prescribe, a Federal Reserve bank may, upon request of the corporation which deposited the same, sell any such bonds or obligations for account of such corporation, and permit such corporation to use the proceeds thereof for the protection or preservation of any property pledged or mortgaged as security for obligations owned or indorsed by the corporation. If by reason of such sale the face amount of such bonds or other obligations of the United States remaining on deposit with such Federal Reserve bank shall be less than 7½ per centum of such aggregate indebtedness of the corporation, no further advances shall be made, or notes, drafts, or bills of exchange discounted, rediscounted, accepted, or purchased, by such corporation until sufficient additional bonds or other obligations of the United States have been deposited to make good the deficiency.

(b) In determining whether to grant permission to do business to any National Agricultural Credit Corporation, the Comptroller of the Currency shall take into account the extent to which the laws of the State or States in which the corporation will do business afford adequate protection to advances made upon the security of warehouse receipts covering agricultural commodities or chattel mortgages upon live stock with respect to (1) bonding, licensing, and inspection of warehouses; (2) recordation of chattel mortgages or deeds of trust on live stock; (3) recordation of brands or other identifying marks on live stock; (4) reporting and recording of interstate shipments and slaughter of live stock; and (5) right of mortgagee to release a portion of the mortgaged property without prejudice to the priority of lien as against junior lienors or other creditors of the mortgagor.

#### MISCELLANEOUS ADMINISTRATIVE PROVISIONS

SEC. 209. (a) That all National Agricultural Credit Corporations shall be under the supervision of the Comptroller of the Currency, who shall be charged with the execution of all laws of the United States relating to the organization, regulation, and control of such corporations. The Comptroller of the Currency shall exercise the same general power of supervision over such corporations as he now exercises over national banks organized under the laws of the United States.

(b) In addition to the two Deputy Comptrollers of the Currency now provided for by law, there shall be in the Bureau of the Comptroller of the Currency a third Deputy Comptroller of the Currency who shall be appointed in the same manner and shall take a like oath of office and give a like bond as the Deputy Comptroller now provided for by law. Under the direction of the Comptroller of the Currency, such additional Deputy Comptroller shall have charge of the administration of the provisions of this title relating to the organization and operation of National Agricultural Credit Corporations and shall perform such other duties as shall be assigned to him by the Comptroller of the Currency. The Comptroller of the Currency is hereby authorized to employ such additional examiners, clerks, and other employees as he deems necessary to carry out the provisions of this title and to assign to duty in the office of his bureau in Washington such examiners and assistant examiners as he shall deem necessary to assist in the performance of the work of that bureau. The salaries of the Deputy Comptrollers of the Currency and of such additional examiners, assistant examiners, clerks, and other employees shall be fixed in advance by the Comptroller of the Currency. The salaries of the two Deputy Comptrollers now provided for by law and of all National bank examiners and assistant examiners assigned to duty in the office of the bureau in Washington in connection with the supervision of National banks shall be considered part of the expenses of the examinations provided for by section 5240 of the Revised Statutes, as amended; and the salaries of such additional Deputy Comptroller and of all examiners, assistant examiners, clerks, and other employees appointed under the terms of this title and assigned to duty in connection with the administration of this title shall be considered part of the expenses of the administration of this title: *Provided, however,* That the salary of the additional Deputy Comptroller provided for by this sub-division shall be considered partly an expense of the administration of this title in proportions to be determined from time to time by the Comptroller of the Currency with a view to a fair apportionment of such expense, until such time as it shall be necessary for such additional Deputy Comptroller to give his full time to the administration of this title. The Comptroller of the Currency shall have power to levy semi-annually upon the National Agricultural Credit Corporations operating under the provisions of this title, in proportion to their total assets, an assessment sufficient to pay the expenses of the administration of this title for the ensuing half year, together with any deficit carried forward from the preceding half year. Each such corpora-

tion shall pay the amount so assessed against it to the Treasurer of the United States subject to the order of the Comptroller of the Currency to be disbursed by the Comptroller in payment of expenses incurred in the administration of this title.

(c) The Comptroller of the Currency shall have power to appoint and fix the compensation of examiners to examine National Agricultural Credit Corporations or to use National bank examiners for this purpose. All examiners appointed by him shall be subject to existing provisions of law relating to National bank examiners and to the provisions of the Federal Reserve Act which prohibit National bank examiners from performing any service for compensation for any bank officer and from disclosing the names of borrowers or the collateral for loans without obtaining the written consent of the Comptroller of the Currency, and such provisions shall be held to apply to examiners appointed to examine corporations organized under the provisions of this title.

(d) The expense of all of the examinations of National Agricultural Credit Corporations shall be assessed by the Comptroller of the Currency upon the corporations examined in proportion to assets or resources held by the corporations upon the dates of examination of the various corporations: *Provided*, That a minimum charge of \$50 shall be made for each such examination.

(e) The provisions of the Federal Reserve Act which prohibit any member bank from making loans or granting a gratuity to any National bank examiner shall be applicable to National Agricultural Credit Corporations.

(f) National Agricultural Credit Corporations shall be required to make reports to the Comptroller of the Currency at the time and in the manner required by sections 5211 and 5212 of the Revised Statutes, and shall be subject to the provisions, so far as the same may be held by said Comptroller to be applicable, of section 5213 of the Revised Statutes.

(g) The Secretary of Agriculture may issue a license to any person, upon presentation to him of satisfactory evidence that such person is competent to inspect live stock as a basis for loans. The Secretary of Agriculture may suspend or revoke any license issued by him under this subdivision whenever, after opportunity for hearing has been given to the licensee, the Secretary shall determine that such licensee is incompetent, or has knowingly or carelessly made false or erroneous inspection reports with respect to any live stock, or has accepted any money or other consideration, directly or indirectly, for any neglect or improper performance of duty, or has in any other manner shown himself to be unfit to act as a live-stock inspector. Pending investigation, the Secretary of Agriculture, whenever he deems it necessary, may suspend a license temporarily without a hearing. It shall be unlawful for any person other than a holder of a license duly issued under this subdivision, or any person whose license has been suspended or revoked under the terms of this subdivision, to represent that he is a Federally licensed livestock inspector, and any violation of this provision shall be punishable by a fine of not more than \$1,000, or by imprisonment for not more than one year or both.

(h) Any inspector licensed under the provisions of sub-divisions (g) who makes any statement in any inspection report or to any person for the purpose of obtaining for himself, or any other person, any advance on the security of the live stock inspected, knowing the same to be false, or who wilfully overvalues any security by which an advance is secured, shall be punishable by a fine of not more than \$5,000, or by imprisonment for not more than five years, or both.

(i) The Comptroller of the Currency shall allot to the Department of Agriculture from time to time such sums as may be estimated to be necessary for the administration of the functions vested in that department by this title, and may ratably assess the same from time to time against National Agricultural Credit Corporations.

#### BANKS MEMBERS OF THE FEDERAL RESERVE SYSTEM MAY BECOME STOCK HOLDERS

SEC. 210. That any member bank of the Federal Reserve system may file application with the Comptroller of the Currency for permission, to invest an amount not exceeding in the aggregate 10 per centum of its paid in capital stock and surplus in the stock of one or more of the National Agricultural Credit Corporations, and upon approval of such application may purchase such stock. The Comptroller of the Currency shall have discretion to approve or reject such application in whole or in part.

#### TAXATION

SEC. 211. That taxation by a State of the shares in National Agricultural Credit Corporations, or of dividends derived therefrom, or of the income of said corporations, or real estate owned by them, shall be such only as is or may be authorized by law in the case of National banking associations; and taxation by a State of the debentures or other obligations of such corporations shall not be at a higher rate than the rate applicable to other moneyed capital in the hands of individual citizens thereof.

#### DEPOSITS

SEC. 212. That the moneys of National Agricultural Credit Corporations may be kept on deposit subject to check in any member bank of the Federal Reserve system.

#### CONVERSION OF CORPORATIONS

SEC. 213. (a) That any agricultural or live-stock financing corporation incorporated by special law of any State or organized under the general laws of any State and having an unimpaired capital sufficient to entitle it to become a National Agricultural Credit Corporation may, by the vote of the shareholders owning not less than 51 per centum of the capital stock of such corporation, with the approval of the Comptroller of the Currency, be converted into a National Agricultural Credit Corporation under this title, with any name approved by the Comptroller of the Currency: *Provided*, That the said conversion shall not be in contravention of the State law.

(b) In such case the articles of association and organization certificate may be executed by a majority of the directors of the corporation, and the certificate shall declare that the owners of 51 per centum of the capital stock have authorized the directors to make such certificate and to change or convert the corporation into a National Agricultural Credit Corporation. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a National Agricultural Credit Corporation. The shares of any such corporation may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the corporation until others are elected or appointed.

(c) When the Comptroller of the Currency has given to such corporation a certificate that the provisions of this title have been complied with, such corporation, and all its stockholders, owners, and employees, shall have the same powers and privileges and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by this title for corporations originally organized as National Agricultural Credit Corporations.

#### CONSOLIDATION OF CORPORATIONS

SEC. 214. (a) That any two or more National Agricultural Credit Corporations, with the approval of the Comptroller of the Currency, may consolidate into one corporation under the charter of either or any of the existing corporations on such terms and conditions as may be lawfully agreed upon by a majority of the board of directors of each corporation proposing to consolidate, such agreement to be ratified and confirmed by the affirmative vote of the shareholders of each of such corporations owning at least two-thirds of its capital stock outstanding, at a meeting to



be held on the call of the directors after publishing notice of the time, place, and object of the meeting for four consecutive weeks in some newspaper published in the place where the said corporation is located, and if no newspaper is published in the place then in a paper published nearest thereto, and after sending such notice to each shareholder of record by registered mail at least ten days prior to said meeting: *Provided*, That the capital stock of such consolidated corporation shall not be less than \$250,000 paid in if the corporations consolidated are organized to exercise the powers covered by section 203, or less than \$1,000,000 paid in if the corporations consolidated are those organized under section 207.

(b) When such consolidation shall have been effected and approved by the Comptroller of the Currency any shareholder of either of the corporations so consolidated who has not voted for such consolidation may give notice to the board of directors of the corporation in which he is interested, within 20 days from the date of the certificate of approval of the Comptroller of the Currency, that he dissents from the plan of consolidation as adopted and approved, whereupon he shall be entitled to receive the value of the shares so held by him, to be ascertained by an appraisal made by a committee of three persons, one to be selected by the shareholder, one by the directors, and the third by the two so chosen; and in case the value so affixed shall not be satisfactory to the shareholder, he may within five days after being notified of the appraisal appeal to the Comptroller of the Currency, who shall cause a reappraisal to be made, which shall be final and binding and if said reappraisal shall exceed the value affixed by said committee, the corporation shall pay the expense of the reappraisal, otherwise the appellant shall pay said expense; and the value so ascertained and determined shall be deemed to be a debt due and be forthwith paid to said shareholder by said corporation, and the shares so paid shall be surrendered and after due notice sold at public auction within 30 days after the final apportionment provided for by this title.

(c) Where corporations consolidate under the provisions of this title, all of the rights, franchises, and interest of said corporations shall be consolidated in and to every species of property, personal and mixed, and chosen in action thereto belonging, and shall be deemed to be transferred to and vested in the corporation into which it is consolidated without any deed or other transfer, and the said consolidated corporation shall hold and enjoy the same and all rights of property, franchises, and interest, in the same manner and to the same extent as they were held and enjoyed by the corporations so consolidated therewith.

#### INSOLVENCY RECEIVERSHIP, AND LIQUIDATION

SEC. 215. (a) That whenever any National Agricultural Credit Corporation shall be dissolved and its rights, privileges, and franchises declared forfeited as prescribed in the preceding section, or whenever any creditor of any such corporation shall have obtained a judgment against it in any court of record and made application accompanied by a certificate from the clerk of the court, stating that such judgment has been rendered and has remained unpaid for the space of 30 days or whenever the Comptroller of the Currency shall become satisfied of the insolvency of such corporation, he may, after due examination of its affairs in either case, appoint a receiver who shall proceed to wind up the affairs of such corporation. The receiver so appointed shall exercise the powers and be subject to the restrictions of receivers of National banks; and the Comptroller of the Currency shall have the same powers and duties in connection with the administration of such receivership as he has in reference to the receivership of National banks.

(b) Shareholders' agents for shareholders of National Agricultural Credit Corporations may be appointed in the manner prescribed by section 3 of the Act of June 30, 1876, as amended, and shall have the same general powers and duties and be subject to the same restrictions as shareholders' agents of a National bank.

(c) Any National Agricultural Credit Corporation may go into liquidation and be closed by the vote of its shareholders owning two-thirds of its stock. Whenever a vote is taken to go into liquidation it shall be the duty of the board of directors to cause notice of this fact to be certified under the seal of the corporation by its president or cashier to the Comptroller of the Currency and publication thereof to be made for a period of two months in a newspaper published in the city or town in which the corporation is located, or if no newspaper is there published, in the newspaper published nearest thereto, that the corporation is closing up its affairs and notifying the creditors to present their claims against the corporation for payment. All such claims shall be presented to and approved by a liquidating agent to be appointed by the board of directors of such corporation, with the approval of the Comptroller of the Currency, and the affairs of such corporation shall be liquidated by such agent and under the supervision of the Comptroller of the Currency.

#### PENALTY PROVISIONS

SEC. 216. (a) That any officer, director, agent, or employee of a National Agricultural Credit Corporation who embezzles, abstracts, purloins, or wilfully misapplies any of the moneys, funds, or credits of such corporation, or who, without authority from the directors, draws any order or bill of exchange, makes any acceptance, issues, puts forth, or assigns any note, debenture, bond, draft, bill of exchange, mortgage, judgment, or decree, or who makes any false entry in any book, report, or statement of such corporation with intent in any case to injure or defraud such corporation or any other company or person, or to deceive any officer of such corporation or the Comptroller of the Currency, or any agent or examiner appointed to examine the affairs of such corporation; and every receiver of such corporation who with like intent to defraud or injure embezzles, abstracts, purloins, or wilfully misapplies any of the moneys, funds, or assets of the corporation, and every person who with like intent aids or abets any officer, director, agent, employee, or receiver in any violation of this section shall be deemed guilty of a misdemeanor, and upon conviction in any district court of the United States, shall be fined not more than \$5,000, or shall be imprisoned for not more than five years, or both, at the discretion of the court.

(b) Whoever makes any statement, knowing it to be false, for the purpose of obtaining for himself or for any other person, firm, corporation, or association any advance, or extension or renewal of an advance, or any release or substitution of security, from a National Agricultural Credit Corporation, or for the purpose of influencing in any other way the action of such corporation, shall be punished by a fine of not more than \$10,000 or by imprisonment for not more than five years, or both.

(c) Whoever wilfully overvalues any property offered as security for any such advance shall be punished by a fine of not more than \$5,000, or by imprisonment for not more than two years, or both.

(d) Any examiner appointed under this title who shall accept a loan or gratuity from any organization examined by him, or from any person connected with any such organization in any capacity, or who shall disclose the names of borrowers to other than the proper officers of such organization, without first having obtained expressed permission in writing from the Comptroller of the Currency or from the board of directors of such organization, except when ordered to do so by a court of competent jurisdiction or by direction of the Congress of the United States or of either House thereof, or any committee of Congress or of either House duly authorized, shall be punished by a fine of not exceeding \$5,000 or by imprisonment of not exceeding one year, or both, and may be fined a further sum equal to the money so loaned or gratuity given, and shall forever thereafter be disqualified from holding office as an examiner under the provisions of this title. No examiner while holding such office shall per-



form any other service for compensation for any bank or banking or loan association or for any person connected therewith in any capacity.

(e) Whoever, being an officer, director, employee, agent or attorney of a National Agricultural Credit Corporation stipulates for or receives or consents or agrees to receive any fee, commission, gift, or thing of value from any person, firm, or corporation for procuring or endeavoring to procure for such person, firm, or corporation, or for any other person, firm, or corporation any loan from any such corporation or extension or renewal of loan or substitution of security, or the purchase or discount or acceptance of any paper, note, draft, check, or bill of exchange by any such corporation, shall be deemed guilty of a misdemeanor and upon conviction, shall be imprisoned for not more than one year or fined not more than \$5,000, or both.

(f) Any person who shall falsely make, forge, or counterfeit, or cause or procure to be falsely made, forged, or counterfeited, or willingly aid or assist in falsely making, forging, or counterfeiting any debentures, coupons, or other obligations in imitation of or purporting to be an imitation of the debentures, coupons, or other obligations issued by any National Agricultural Credit Corporation, and any person who shall pass, utter, or publish or attempt to pass, utter, or publish any false, forged, or counterfeited debenture, coupon, and other obligation purporting to be issued by any such corporation knowing the same to be falsely made, forged, or counterfeited, and any person who shall falsely alter or cause or procure to be falsely altered, or shall willingly aid or assist in falsely altering any such debenture, coupon, or other obligations, or who shall pass, utter, or publish as true any falsely altered or spurious debenture, coupon, or other obligation issued or purporting to have been issued by any such corporation knowing the same to be falsely altered or spurious shall be punished by a fine of not exceeding \$5,000 or by imprisonment not to exceed five years, or both.

(g) Any person who shall deceive, defraud, or impose upon or who shall attempt to deceive, defraud, or impose upon any person, partnership, corporation, or association by making any false pretense or representation concerning the character, issue, security, contents, conditions, or terms of any debenture, coupon, or other obligation issued under the terms of this title, shall be fined not exceeding \$500, or imprisoned not to exceed one year, or both.

(h) All corporations not organized under the provisions of this title are prohibited from using the words "National Agricultural Credit Corporation" as part of their corporate name, and any violation of this prohibition shall subject the party charged therewith to a civil penalty of \$50 for each day during which the violation continues.

#### RESERVATION OF RIGHT TO AMEND

SEC. 217. That the right to amend, alter, or repeal the provisions of this title is hereby expressly reserved.

### TITLE III.—AMENDMENTS TO FEDERAL FARM LOAN ACT

SEC. 301. That the second paragraph of section 3 of the Federal Farm Loan Act is amended to read as follows:

"Said Federal Farm Loan Board shall consist of seven members, including the Secretary of the Treasury, who shall be a member and chairman ex officio, and six members to be appointed by the President of the United States, by and with the advice and consent of the Senate. Of the six members to be appointed by the President, not more than three shall be appointed from one political party, and all six of said members shall be citizens of the United States and shall devote their entire time to the business of the Federal Farm Loan Board; they shall receive an annual salary of \$10,000 payable monthly, together with actual necessary traveling expenses. One of the additional members of the Federal Farm Loan Board, hereby provided for, shall be appointed for a term expiring August 6, 1929, and one for a term ex-

piring August 6, 1931, and thereafter the terms of all members of the Federal Farm Loan Board shall be as in this section otherwise provided for."

SEC. 302. That the eighth paragraph of section 3 of the Federal Farm Loan Act is amended and divided into three paragraphs to read as follows:

"The salaries and expenses of the Federal Farm Loan Board and farm loan registrars and examiners authorized under this section shall, after June 30, 1923, be paid by the Federal and joint-stock land banks in proportion to their gross assets, as follows:

"The Federal Farm Loan Board shall, prior to June 30, 1923, and each six months thereafter, estimate the expenses and salaries of the Federal Farm Loan Board, its officers and employees, farm loan registrars, deputy registrars, the examiners and reviewing appraisers, and apportion the same among the Federal and joint-stock land banks in proportion to their gross assets at the time of such apportionment and make an assessment upon each of such banks pursuant to such apportionment, payable on the 1st of July or January next ensuing. The funds collected pursuant to such assessments shall be deposited with the Treasurer of the United States to be disbursed in payment of such salaries and expenses on appropriations duly made by Congress for such purpose.

"If any deficiency shall occur in such fund during the half-year period for which it was estimated, the Federal Farm Loan Board shall have authority to make immediate assessment covering such deficiency against the Federal and joint-stock land banks upon the same basis as the original assessment. If at the end of the six months' period there shall remain a surplus in such fund, it shall be deducted from the estimated expenses of the next ensuing six months' period when assessment is made for such period. Land bank appraisers shall receive such compensation as the Federal Farm Loan Board shall fix and shall be paid by the Federal land banks and the joint-stock land banks which they serve in such proportion and in such manner as the Federal Farm Loan Board shall order."

SEC. 303. That the second paragraph of section 4 of the Federal Farm Loan Act is amended to read as follows:

"The Federal Farm Loan Board shall establish in each Federal land bank district a Federal land bank, with its principal office located in such city within the district as said board shall designate. Each Federal land bank shall include in its title the name of the city in which it is located. Subject to the approval of the Federal Farm Loan Board, any Federal land bank may establish branches within the land bank district. Subject to the approval of the Federal Farm Loan Board and under such conditions as it may prescribe, the provisions of this Act are extended to the island of Porto Rico and the Territory of Alaska; and the Federal Farm Loan Board shall designate a Federal land bank which is hereby authorized to establish a branch bank in Porto Rico, and a Federal land bank which is hereby authorized to establish a branch bank in the Territory of Alaska. Loans made by each such branch bank shall not exceed the sum of \$10,000 to any one borrower and shall be subject to the restrictions and provisions of this Act, except that each such branch bank may loan direct to borrowers, and subject to such regulations as the Federal Farm Loan Board may prescribe, the rate charged borrowers may be 1½ per centum in excess of the rate borne by the last preceding issue of farm loan bonds of the Federal land bank with which such branch bank is connected: *Provided*, That no loan shall be made in Porto Rico or Alaska by such branch bank for a longer term than 20 years."

SEC. 304. That the twentieth to twenty-fifth paragraphs, inclusive, of section 4 of the Federal Farm Loan Act are amended to read as follows:

"The board of directors of every Federal land bank shall be selected as hereinafter specified and shall consist of seven members. Three of said directors shall be known as local directors and shall be chosen by and be representative of national farm-loan associations, and borrowers through

agencies; three shall be known as district directors and shall be appointed by the Federal Farm Loan Board and represent the public interest. The term of office of local and district directors shall be three years.

"Within 30 days from the date of passage of the Agricultural Credits Act of 1923 and thereafter, at least two months before each election, the Federal Farm Loan Board shall divide each land bank district into three divisions, as nearly equal as possible, according to number of borrowers and the voting strength of national farm-loan associations and borrowers through agencies, and the Farm Loan Commissioner shall thereupon notify each association and agency in writing that an election is to be held for one local director from each of said divisions and requesting each association and agency to nominate one candidate for each division. Within ten days of receipt of such notice each national farm-loan association and borrower through agencies shall forward nominations of residents of their respective divisions for one director for such division to said Farm Loan Commissioner. The Farm Loan Commissioner shall then prepare a list of candidates for local directors, consisting of the ten persons receiving the highest number of votes from national farm-loan associations and borrowers through agencies for each division.

"At least one month before said election the Farm Loan Commissioner shall mail to each national farm-loan association and to each borrower through agencies the list of candidates for their respective divisions. The directors of each national farm-loan association shall cast the vote of said association for one of the candidates on said list and shall forward said vote to the said Farm Loan Commissioner within ten days after said list of candidates is received. In voting under this section each association shall be entitled to cast a number of votes equal to the total voting strength of the stockholders in association meetings, and each borrower through agencies shall be entitled to cast one vote for each share of stock held by him in the Federal land bank not exceeding twenty shares, and shall forward said vote to the said Farm Loan Commissioner within ten days after said list of candidates is received. The candidate receiving the highest number of votes in his division shall be declared elected as local director of the Federal land bank district from his division. In case of a tie, the Farm Loan Commissioner shall determine the choice. The nominations from which the list of candidates is prepared, and the votes of the respective associations and borrowers through agencies for such candidates, as counted, shall be tabulated and preserved, subject to examination by any candidate, for at least one year after the result of the election is announced.

"The Federal Farm Loan Board shall designate one of the district directors to serve until December 31, 1924, one to serve till December 31, 1925, and one to serve till December 31, 1926. After their first appointment each district director shall be appointed for a term of three years. At the first regular meeting of the board of directors of each Federal land bank the local directors shall designate one of their members to serve till December 31, 1924, one to serve till December 31, 1925, and one to serve till December 31, 1926. Thereafter each local director shall be chosen as hereinbefore provided and shall hold office for a term of three years. Any vacancies that may occur in the board of directors shall be filled for the unexpired term in the manner provided herein for the original selection of such directors. At the same time that the associations and borrowers through agencies nominate the candidates for the local directors, each association and each borrower through agencies shall also nominate one candidate for director at large for the entire district, and from the three persons having the greatest number of votes for nominee for director at large, the Federal Farm Loan Board shall select a director at large, whose term of office shall terminate on the 31st day of December, 1925, and every three years thereafter. Such seventh director may be removed by the Federal Farm Loan Board for neglect of duty, incapacity for the work, or malfeasance in office,

after charges duly preferred and a hearing had thereon, and in such cases the associations of the district shall in like manner nominate candidates for another director at large, to fill the vacancy, for whom the Federal Farm Loan Board shall in same manner select a successor, but any person who is removed can not be nominated to succeed himself. The board of directors thus selected shall, upon qualification, immediately take over the management of each bank.

"Directors of Federal land banks shall have been, for at least two years, residents of the district for which they are appointed or elected, and a local director shall be a resident of his division when elected. No district director of a Federal land bank shall, during his continuance in office, act as an officer, director, or employee of any other institution, association, or partnership engaged in banking or in the business of making or selling land-mortgage loans.

"Directors of the Federal land bank shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their boards, to be paid by the respective Federal land banks. Any compensation that may be provided by boards of directors of the Federal land banks for directors, officers, or employees shall be subject to the approval of the Federal Farm Loan Board."

SEC. 305. That the fourth paragraph of section 7 of the Federal Farm Loan Act is amended by adding thereto the following: "No such secretary-treasurer shall engage in the making of land mortgage loans eligible at a Federal land bank through or for any other land mortgage company or agency, and the making of any such loan by any secretary-treasurer shall forthwith work a forfeiture of his office."

SEC. 306. That subdivision (d) of paragraph "Fourth" of section 12 of the Federal Farm Loan Act is amended to read as follows:

"(d) To liquidate indebtedness of the owner of the land mortgaged incurred for agricultural purposes, or incurred prior to January 1, 1922."

SEC. 307. That paragraph "Seventh" of section 12 of the Federal Farm Loan Act is amended to read as follows:

"Seventh. The amount of loans to any one borrower shall in no case exceed a maximum of \$25,000, nor shall any one loan be for a less sum than \$100, but preference shall be given to applications for loans of \$10,000 and under.

SEC. 308. That section 21 of the Federal Farm Loan Act is amended by adding at the end thereof twelve new paragraphs to read as follows:

"Whenever it shall appear desirable to issue consolidated bonds of the twelve Federal land banks and to sell them through a common selling agency, and the Federal land banks shall, by resolution, consent to the same, the banks may issue and sell said bonds as hereinafter provided.

"Every bond so issued shall be signed by the Farm Loan Commissioner and attested by the secretary of the Federal Farm Loan Board, and their signatures may be either written or engraved thereon and shall recite in the face of the bond the fact that it is the joint and several obligation of the twelve Federal land banks, and shall in all respects be governed by the provisions of the Federal Farm Loan Act not inconsistent herewith.

"The consolidated bonds issued under this provision shall be made payable at any Federal land bank, and may be made payable at any Federal Reserve bank or banks designated in the face of the bond.

"Each Federal land bank on whose behalf consolidated bonds shall be issued under this provision shall in all respects be bound by the act of the Farm Loan Commissioner and the secretary of the Federal Reserve bank or banks designated in the face of the bond.

"Every Federal land bank, before participation in a consolidated issue, as herein provided, shall by appropriate action of its board of directors, duly recorded in its minutes, obligate itself to become liable on Federal farm loan bonds as provided in this section, and be bound by the action



of the Farm Loan Commissioner and the secretary of the Federal Farm Loan Board in executing the same.

"Every farm loan bond issued hereunder shall contain on the face thereof a certificate signed by the Farm Loan Commissioner to the effect that it is issued under the authority of Title I of the Federal Farm Loan Act, has the approval in form and issue of the Federal Farm Loan Board, and is legal and regular in all respects; that it is not taxable by National, State, municipal, or local authority; that it is issued against collateral security consisting of obligations of the United States Government, or indorsed first mortgages on farm lands, at least equal in amount to the bonds issued; and that all Federal land banks are liable for the payment of each bond.

"When any Federal land bank shall desire to participate in a consolidated issue of farm loan bonds it shall make application to the Federal Farm Loan Board for the approval on its behalf of such issue and tender to the registrar approved farm mortgages, or obligations of the United States Government, as security therefor, and no banks shall participate in such consolidated issue until such application has been approved by the Federal Farm Loan Board. Each bank shall pay when due, without notice, all bonds and coupons issued on its behalf hereunder.

"If any Federal land bank shall fail to pay its proportion of interest or principal as herein prescribed, the Federal Farm Loan Board shall immediately call upon the other Federal land banks for the amount necessary to make said payment, the assessments to be made in proportion to the capital stock of each, which assessments shall be forthwith paid by said banks.

"The presidents of the twelve Federal land banks shall constitute the bond committee of the Federal land banks and shall select a chairman from among their number. The vice president may act in place of the president on the president's request or in case he fails to act.

"When an issue of consolidated bonds is contemplated, the bond committee shall determine the amount of such issue, the rate of interest which it is to bear, and the participation of the several banks therein, and submit their recommendations to the Federal Farm Loan Board for approval. When approved by the Federal Farm Loan Board the bonds shall be executed by the Farm Loan Commissioner and the secretary of the Federal Farm Loan Board, as herein provided.

"The expenses of the bond committee and of the sale of bonds shall be charged against the several land banks in proportion to their participation in the proceeds.

"The presidents of the Federal land banks shall receive no additional compensation for their services as members of the bond committee, but shall be paid necessary traveling expenses."

SEC. 309. That subdivisions (a) and (b) of the eighth paragraph of section 22 of the Federal Farm Loan Act are amended to read as follows:

"(a) To pay off farm loan bonds issued by or in behalf of said bank as they mature.

"(b) To purchase at or below par Federal farm loan bonds."

SEC. 310. That section 25 of the Federal Farm Loan Act is amended to read as follows:

"Sec. 25. That if there shall be default under the terms of any indorsed first mortgage held by a Federal land bank under the provisions of this title, the National Farm Loan Association through which said mortgage was received by said Federal land bank shall be notified of said default. Said association may thereupon be required, within 30 days after such notice, to make good such default, either by payment of the amount unpaid thereon in cash or by the substitution of an equal amount of Federal farm loan bonds, with all unmatured coupons attached."

SEC. 311. That section 29 of the Federal Farm Loan Act is amended by adding at the end thereof a new paragraph to read as follows:

"Upon liquidation of any national farm loan association, the stock in the Federal land bank held by such association shall be canceled and the Federal land bank shall thereupon issue to the

borrowers through such association an amount of stock in the Federal land bank equal to the amount of stock held by such borrowers in the liquidated association, such stock to be held by the bank as collateral to the loans of such borrowers and to be paid off and retired at par in the same manner as stock held by borrowers in farm loan associations, and the Federal land bank shall pay to the borrowers holding such stock the same dividends as are paid to National farm loan associations by such bank. The personal liability of the stockholders in such liquidated association to the association shall survive such liquidation and shall be vested in the bank in that district, which may enforce the same as fully as the association could if in existence."

#### TITLE IV.—AMENDMENTS TO THE FEDERAL RESERVE ACT

SEC. 401. That the ninth paragraph of section 9 of the Federal Reserve Act is amended to read as follows:

"No applying bank shall be admitted to membership in a Federal reserve bank unless (a) it possesses a paid-up, unimpaired capital sufficient to entitle it to become a National banking association in the place where it is situated under the provisions of the National Bank Act, or (b) it possesses a paid-up, unimpaired capital of at least 60 per centum of the amount sufficient to entitle it to become a National banking association in the place where it is situated under the provisions of the National Bank Act and, under penalty of loss of membership complies with rules and regulations which the Federal Reserve Board shall prescribe fixing the time within which and the method by which the unimpaired capital of such bank shall be increased out of net income to equal the capital which would have been required if such bank had been admitted to membership under the provisions of clause (a) of this paragraph: *Provided*, That every such rule or regulation shall require the applying bank to set aside annually not less than 20 per centum of its net income of the preceding year as a fund exclusively applicable to such capital increase."

SEC. 402. That the second paragraph of section 13 of the Federal Reserve Act is amended and divided into two paragraphs to read as follows:

"Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, any Federal Reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount, and the notes, drafts, and bills of exchange of factors issued as such making advances exclusively to producers of staple agricultural products in their raw state shall be eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than 90 days' exclusive of grace.

"Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, and subject to regulations and limitations to be prescribed by the Federal Reserve Board, any Federal Reserve bank may discount or purchase bills of exchange payable at sight or on demand which are drawn to finance the domestic shipment or non-perishable,



readily marketable staple agricultural products and are secured by bills of lading or other shipping documents conveying or securing title to such staples: *Provided*, That all such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made with reasonable promptness after the arrival of such staples at their destination: *Provided further*, That no such bill shall in any event be held by or for the account of a Federal Reserve bank for a period in excess of 90 days. In discounting such bills Federal Reserve banks may compute the interest to be deducted on the basis of the estimated life of each bill and adjust the discount after payment of such bills to conform to the actual life thereof."

SEC. 403. That the fourth paragraph of section 13 of the Federal Reserve Act is amended to read as follows:

"Any Federal Reserve bank may discount acceptances of the kinds hereinafter described, which have a maturity at the time of discount of not more than 90 days' sight, exclusive of days of grace, and which are indorsed by at least one member bank: *Provided*, That such acceptances if drawn for an agricultural purpose and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples may be discounted with a maturity at the time of discount of not more than six months' sight exclusive of days of grace."

SEC. 404. That the Federal Reserve Act is amended by adding at the end of section 13 a new section to read as follows:

"SEC. 13a. Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, any Federal Reserve bank may, subject to regulations and limitations to be prescribed by the Federal Reserve Board, discount notes, drafts, and bills of exchange issued or drawn for an agricultural purpose, or based upon live stock, and having a maturity, at the time of discount, exclusive of days of grace, not exceeding nine months, and such notes, drafts, and bills of exchange may be offered as collateral security for the issuance of Federal reserve notes under the provisions of section 16 of this Act: *Provided*, That notes, drafts, and bills of exchange with maturities in excess of six months shall not be eligible as a basis for the issuance of Federal reserve notes unless secured by warehouse receipts or other such negotiable documents conveying or securing title to readily marketable staple agricultural products or by chattel mortgage upon live stock which is being fattened for market.

"That any Federal Reserve bank may, subject to regulations and limitations to be prescribed by the Federal Reserve Board, rediscount such notes, drafts, and bills for any Federal Intermediate Credit Bank, except that no Federal Reserve bank shall rediscount for a Federal Intermediate Credit Bank any such note or obligation which bears the indorsement of a nonmember State bank or trust company which is eligible for membership in the Federal Reserve system, in accordance with section 9 of this Act.

"Any Federal Reserve bank may also buy and sell debentures and other such obligations issued by a Federal Intermediate Credit Bank or by a National Agricultural Credit Corporation, but only to the same extent as and subject to the same limitations as those upon which it may buy and sell bonds issued under Title I of the Federal Farm Loan Act.

"Notes, drafts, bills of exchange or acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products shall be deemed to have been issued or drawn for an agricultural purpose, within the meaning of this section, if the proceeds thereof have been or are to be advanced by such association to any members thereof for an agricultural purpose, or have been or are to be used by such association in making payments to any members thereof on account of agricultural products delivered by such members to the association, or if such proceeds have been or are to be used by

such association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product handled by such association for any of its members: *Provided*, That the express enumeration in this paragraph of certain classes of paper of cooperative marketing associations as eligible for rediscount shall not be construed as rendering ineligible any other class of paper of such associations which is now eligible for rediscount.

"The Federal Reserve Board may, by regulation, limit to a percentage of the assets of a Federal Reserve bank the amount of notes, drafts, acceptances, or bills having a maturity in excess of three months, but not exceeding six months, exclusive of days of grace, which may be discounted by such bank, and the amount of notes, drafts, bills, or acceptances having a maturity in excess of six months, but not exceeding nine months, which may be rediscounted by such bank."

SEC. 405. That section 14 of the Federal Reserve Act is amended by adding at the end thereof a new paragraph to read as follows:

"(f) To purchase and sell in the open market, either from or to domestic banks, firms, corporations, or individuals, acceptances of Federal Intermediate Credit Banks and of National Agricultural Credit Corporations, whenever the Federal Reserve Board shall declare that the public interest so requires."

SEC. 406. That section 15 of the Federal Reserve Act is amended by adding at the end thereof a new paragraph to read as follows:

"The Federal Reserve banks are hereby authorized to act as depositories for and fiscal agents of any National Agricultural Credit Corporation or Federal Intermediate Credit Bank."

SEC. 407. That the Act entitled "An act to amend the act approved December 23, 1913, known as the Federal reserve act," approved April 13, 1920, is repealed.

## TITLE V.—MISCELLANEOUS PROVISIONS

### AMENDMENTS TO WAR FINANCE CORPORATION ACT

SEC. 501. That the time during which the War Finance Corporation may make advances and purchase notes, drafts, bills of exchange, or other securities under the terms of section 21, 22, 23, and 24 of the War Finance Corporation Act, as amended, is further extended up to and including February 29, 1924: *Provided*, That if any application for an advance or for the purchase by the War Finance Corporation of notes, drafts, bills of exchange, or other securities is received at the office of the corporation in the District of Columbia on or before February 29, 1924, such application may be acted upon and approved, and the advance may be made on the notes, drafts, or other securities purchased, at any time prior to March 31, 1924.

SEC. 502. That the second paragraph of section 12 of Title I of the War Finance Corporation Act, as amended, is further amended to read as follows:

"The power of the corporation to issue notes or bonds may be exercised at any time prior to January 31, 1927, but no such bonds or notes shall mature later than June 30, 1927."

SEC. 503. (a) That the third paragraph of section 15 of Title I of such Act, as amended, is amended by striking out at the beginning of such paragraph the words "beginning July 1, 1923," and inserting in lieu thereof the words "beginning April 1, 1924."

(b) The fourth paragraph of such section, as amended, is amended by striking out at the beginning of such paragraph the words "After July 1, 1923," and inserting in lieu thereof the words "After April 1, 1924."

### INDEBTEDNESS OF NATIONAL BANKS

SEC. 504. That section 502 of the Revised Statutes, as amended, is amended by adding at the end thereof a new paragraph to read as follows:

"Eighth. Liabilities incurred under the provisions of section 202 of the Federal Farm Loan Act, approved July 17, 1916, as amended.

## JOINT CONGRESSIONAL COMMITTEE

SEC. 506. (a) That a joint committee be appointed, to consist of three Members of the Banking and Currency Committee of the Senate, to be appointed by the President thereof, and five Members of the Banking and Currency Committee of the House of Representatives, to be appointed by the Speaker thereof. Vacancies occurring in the membership of the committee shall be filled in the same manner as the original appointments.

(b) The joint committee is authorized to inquire into the effect of the present limited membership of State banks and trust companies in the Federal Reserve system upon financial conditions in the agricultural sections of the United States; the reasons which actuate eligible State banks and trust companies in failing to become members of the Federal Reserve system; what administrative measures have been taken and are being taken to increase such membership; and whether or not any change should be made in existing law, or in rules and regulations of the Federal Reserve Board, or in methods of administration, to bring about in the agricultural districts a larger membership of such banks or trust companies in the Federal Reserve system.

(c) The committee is authorized to sit at any time during the sessions or recesses of the Congress, to conduct its hearings at Washington or at any other place in the United States, to send for persons, books and papers, to take testimony, to administer oaths, and to employ experts deemed necessary by such committee, a clerk, and a stenographer to report such hearings as may be had in connection with any subject which may be before said committee, such stenographer's services to be rendered at a cost not exceeding \$1.25 per printed page. The expenses of such committee shall be paid out of the contingent funds of the Senate and House of Representatives in proportion to the membership of such committee from each House.

(d) The committee shall from time to time report to both the Senate and the House of Representatives the results of its inquiries, together with its recommendations, and may prepare and submit bills or resolutions embodying such recommendations, and the final report of said committee shall be submitted not later than January 31, 1924.

## SEPARABILITY PROVISION

SEC. 507. That if any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment is rendered.

## DEFINITIONS

SEC. 508. That when used in this Act, the term "Federal Farm Loan Act" means the Federal Farm Loan Act approved July 17, 1916, as amended, and the term "Federal Reserve Act" means the Federal Reserve Act approved December 23, 1913, as amended.

## SHORT TITLE

SEC. 509. That this Act may be cited as the "Agricultural Credits Act of 1923."

Approved, March 4, 1923.

**Farm Loan Board**

See Federal Farm Loan Board.

**Farm Loan Bonds**

See Federal Farm Loan Bonds, Joint-Stock Land Bank Bonds.

**Farm Loan Districts**

See Federal Farm Loan Districts.

**Farm Loans**

See Farm Mortgage Companies, Farm Mortgages.

**Farm Loan System**

See Federal Farm Loan System.

**Farm Mortgage Bankers Association of America**

An association of farm mortgage companies which have grown rapidly within recent years in number and influence. This association is composed of about 200 members, consisting not only of farm mortgage companies, but of banks and trust companies having mortgage departments. The purpose of this association is to elevate the standard of mortgage bank practice, to promote constructive farm-mortgage legislation and to oppose legislation regarded as hostile to its welfare.

**Farm Mortgage Companies**

Companies engaged in soliciting and selling bonds or notes secured by mortgages on farm property. In some states they are required to be organized under the state banking laws, but in others they may operate as unincorporated concerns. Usually mortgages are solicited throughout the territory of a company through local agents. Prospective borrowers usually are required to apply for a mortgage loan on a farm provided by the mortgage company. Information required by this form, aside from that of a purely personal nature, is along the following lines:

1. The amount of property under cultivation.
2. Date of purchase.
3. The amount of present encumbrances, if any.
4. The fair market valuation of the land.
5. The cash value of improvements.
6. The rental value.
7. The nature of the crops of the previous and current year and their cash value.
8. The assessed valuation and amount of the taxes.
9. The character of the live stock and its cash value.
10. The location of the farm with respect to railroads, towns, churches, schools, etc.
11. The condition of the title to the property.
12. The purpose for which the money is to be borrowed.



After the application is received, the property is inspected by an agent of the company who makes a report recommending its acceptance or rejection and proposing the terms. The charges on a farm mortgage loan include interest sufficient to compel the sale of the mortgage at par, plus a commission to cover inspection, clerical and other overhead costs, usually ranging from  $\frac{1}{2}$  per cent. to 1 per cent. of the loan.

Mortgage companies sometimes issue bonds or certificates instead of selling bonds and mortgages directly to investors. These bonds are secured by the mortgages which the company has purchased. These bonds are much more conveniently distributed among investors because they are sold in even and convenient denominations. (See Mortgage Bonds, Mortgage Certificates.)

### Farm Mortgages

Mortgages upon farm lands and buildings. Borrowing with a farm mortgage as security is the chief means used by farmers to raise capital for the purpose of financing the purchase of land and to expand their operating equipment—buildings and implements. The farm mortgage is the earliest type of mortgage, and the methods of farm mortgage lending have become fairly well standardized. Much of the American practice has been adopted from European experience.

Farm mortgages generally run from three to five years, but frequently are renewed. The borrower (mortgagor) under a farm mortgage is required to guarantee the payment of taxes and to keep the buildings repaired and insured for the benefit of the lender (mortgagee). In case of default in the payment of the interest or in carrying out any of the mortgage agreements, the entire debt becomes immediately due.

As investments, loans on farm mortgages are considered very satisfactory provided the loan does not bear too large a ratio to the value of the mortgaged property. Under the *Federal Farm Loan System* (q. v.) a farm loan cannot exceed 50 per cent. of the value of the improved farm land which is mortgaged, and not more than 20 per cent. of the value of the buildings. Farm mortgage loans have the advantage of a relatively high yield, safety, early maturity, freedom from fluctuation in the value of the principal of the investment, and control by the owner over his investment. The chief disadvantages are that there is usually no market, and that they are undesirable as long-term investments.

The census records show that in 1910, the total farm mortgage indebtedness in the United States was \$1,726,172,851, equal to 27.3 per cent. of the value of the farm land and buildings. In 1920 the farm mortgage indebtedness was \$4,012,711,213, equal to 29.1 per cent. of the value of the land and buildings.

(See Farm Mortgage Companies, Federal Farm Loan System.)

(For bibliography, see Federal Farm Loan System.)

### Farthing

An English bronze coin with the smallest denomination and having the value of  $\frac{1}{4}$  penny.

### Favorable Conditions

A term used among financial writers to indicate those forces conducive to higher security of commodity values. Favorable conditions may be divided broadly into two groups, namely, political (United States and abroad), and economic (business and financial).

Under favorable political conditions may be classed election of a presidential candidate favored by business interests, passing of constructive legislation helpful directly or indirectly to business, *e. g.*, tariff, Supreme Court decision, railroad aid, etc. It may also be international in its effect, such as the settling of an international dispute.

Under favorable financial conditions may be included low money rates, high ratio of cash reserves to deposit liabilities, as shown by bank statements, etc.

Under favorable business conditions may be included activity in production and distribution, large bank clearings, good crops, few idle cars, large railroad earnings, few commercial failures, stable or rising prices, etc.

### Federal Bill of Lading Act

See Bill of Lading Act.

### Federal Farm Loan Act

An Act passed July 17, 1916, and amended January 18, 1918, April 29, 1920, May 26, 1920, May 29, 1920, February 27, 1921, March 4, 1921, July 1, 1921, and August 13, 1921, to provide an improved machinery of agricultural finance, by supplying through a system of land banks under federal incorporation long-term credits necessary for the development and extension of agricultural operations. It is particularly designed to fur-



nish a convenient and economical means of purchasing farm lands and to pay off existing debt. Other purposes of the Act are to correct the abuses of private farm mortgage finance, to elevate the credit standing of agricultural borrowers, to reduce and equalize interest rates on farm mortgages, and to increase the supply of capital for agricultural development.

The full text of the Act with amendments is reproduced below:

An Act To provide capital for agricultural development, to create standard forms of investment based upon farm mortgage, to equalize rates of interest upon farm loans, to furnish a market for United States bonds, to create Government depositories and financial agents for the United States, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled.* That the short title of this Act shall be "The Federal Farm Loan Act." Its administration shall be under the direction and control of the Federal Farm Loan Board hereinafter created.

#### DEFINITIONS

Sec. 2. That wherever the term "first mortgage" is used in this Act it shall be held to include such classes of first liens on farm lands as shall be approved by the Federal Farm Loan Board, and the credit instruments secured thereby. The term "farm loan bonds" shall be held to include all bonds secured by collateral deposited with a farm loan registrar under the terms of this Act; they shall be distinguished by the addition of the words "Federal," or "joint stock," as the case may be.

#### FEDERAL FARM LOAN BOARD

Sec. 3. That there shall be established at the seat of government in the Department of the Treasury a Bureau charged with the execution of this Act and of all Acts amendatory thereof, to be known as the Federal Farm Loan Bureau, under the general supervision of a Federal Farm Loan Board.

Said Federal Farm Loan Board shall consist of five members, including the Secretary of the Treasury, who shall be a member and chairman ex officio, and four members to be appointed by the President of the United States, by and with the advice and consent of the Senate. Of the four members to be appointed by the President, not more than two shall be appointed from one political party, and all four of said members shall be citizens of the United States and shall devote their entire time to the business of the Federal Farm Loan Board; they shall receive an annual salary of \$10,000 payable monthly, together with actual necessary travelling expenses.

One of the members to be appointed by the President shall be designated by him to serve for two years, one for four years, one for six years, and one for eight years, and thereafter each member so appointed shall serve for a term of eight years, unless sooner removed for cause by the President. One of the members shall be designated by the President as the Farm Loan Commissioner, who shall be the active executive officer of said board. Each member of the Federal Farm Loan Board shall within fifteen days after notice of his appointment take and subscribe to the oath of office.

The first meeting of the Federal Farm Loan Board shall be held in Washington as soon as may be after the passage of this Act, at a date and place to be fixed by the Secretary of the Treasury.

No member of the Federal Farm Loan Board shall, during his continuance in office, be an officer or director of any other institution, association, or partnership engaged in banking, or in the business of making land mortgage loans or selling land mortgages. Before entering upon his duties as a member of the Federal Farm Loan Board each member shall certify under oath to the President that he is eligible under this section.

The President shall have the power, by and with the advice and consent of the Senate, to fill any vacancy occurring in the membership of the Federal Farm Loan Board; if such vacancy shall be filled during the recess of the Senate a commission shall be granted which shall expire at the end of the next session.

The Federal Farm Loan Board shall appoint a farm loan registrar in each land bank district to receive applications for issues of farm loan bonds and to perform such other services as are prescribed by this Act, and may appoint a deputy registrar who shall, during the unavoidable absence or disability of the registrar, perform the duties of that office. It shall also appoint one or more land bank appraisers for each land bank district and as many land bank examiners as it shall deem necessary. Farm loan registrars, deputy registrars, land bank appraisers, and land bank examiners appointed under this section shall be public officials and shall, during their continuance in office, have no connection with or interest in any other institution, association, or partnership engaged in banking or in the business of making land mortgage loans or selling land mortgages: *Provided*, That this limitation shall not apply to persons employed by the board temporarily to do special work.

The salaries and expenses of the Federal Farm Loan Board, and of farm loan registrars and examiners authorized under this section, shall be paid by the United States. Land bank appraisers shall receive such compensation as the Federal Farm Loan Board shall fix, and shall be paid by the Federal land banks and the joint stock land banks which they serve, in such proportion and in such manner as the Federal Farm Loan Board shall order.

The Federal Farm Loan Board shall be authorized and empowered to employ such attorneys, experts, assistants, clerks, laborers, and other employees as it may deem necessary to conduct the business of said board. All salaries and fees authorized in this section and not otherwise provided for shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the Federal Farm Loan Board. All such attorneys, experts, assistants, clerks, laborers, and other employees, and all registrars, examiners and appraisers shall be appointed without regard to the provisions of the Act of January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States at Large, page four hundred and three), and amendments thereto, or any rule or regulation made in pursuance thereof: *Provided*, That nothing herein shall prevent the President from placing said employees in the classified service.

Every Federal land bank shall semiannually submit to the Federal Farm Loan Board a schedule showing the salaries or rates of compensation paid to its officers and employees.

The Federal Farm Loan Board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

The Federal Farm Loan Board shall from time to time require examinations and reports of condition of all land banks established under the provisions of this Act and shall publish consolidated statements of the results thereof. It shall cause to be made appraisals of farm lands as provided by this Act, and shall prepare and publish amortization tables which shall be used by national farm loan associations and land banks organized under this Act.

The Federal Farm Loan Board shall prescribe a form for the statement of condition of national farm loan associations and land banks under its supervision, which shall be filled out quarterly by each such association or bank and transmitted to said board.

It shall be the duty of the Federal Farm Loan Board to prepare from time to time bulletins setting forth the principal features of this Act and through the Department of Agriculture or otherwise to distribute the same, particularly to the press, to agricultural journals, and to farmers' organizations; to prepare and distribute in the

same manner circulars setting forth the principles and advantages of amortized farm loans and the protection afforded debtors under this Act, instructing farmers how to organize and conduct farm loan associations, and advising investors of the merits and advantages of farm loan bonds; and to disseminate in its discretion information for the further instruction of farmers regarding the methods and principles of co-operative credit and organization. Said board is hereby authorized to use a reasonable portion of the organization fund provided in section thirty-three of this Act for the objects specified in this paragraph, and is instructed to lay before the Congress at each session its recommendations for further appropriations to carry out said objects.

#### FEDERAL LAND BANKS.

Sec. 4. That as soon as practicable the Federal Farm Loan Board shall divide the continental United States, excluding Alaska, into twelve districts, which shall be known as Federal land bank districts, and may be designated by number. Said districts shall be apportioned with due regard to the farm loan needs of the country, but no such district shall contain a fractional part of any State. The boundaries thereof may be re-adjusted from time to time in the discretion of said board.

The Federal Farm Loan Board shall establish in each Federal land bank district a Federal land bank, with its principal office located in such city within the district as said board shall designate. Each Federal land bank shall include in its title the name of the city in which it is located. Subject to the approval of the Federal Farm Loan Board, any Federal land bank may establish branches within the land bank district. Subject to the approval of the Federal Farm Loan Board and under such conditions as it may prescribe, the provisions of this Act are extended to the island of Porto Rico; and such Federal land bank as may be designated by the Federal Farm Loan Board is hereby authorized to establish a branch bank at such point as the Federal Farm Loan Board may direct on the island of Porto Rico. Loans made by such branch bank, when so established, shall not exceed the sum of \$5,000 to any one borrower and shall be subject to the restrictions and provisions of this Act, except that such branch bank may loan direct to borrowers, and subject to such regulations as the Federal Farm Loan Board may prescribe the rate charged borrowers may be 1½ per centum in excess of the rate borne by the last preceding issue of farm loan bonds of the Federal land bank with which such branch bank is connected: *Provided, however,* That no loans shall be made in the island of Porto Rico to run for a longer term than twenty years.

Each borrower through such branch bank shall subscribe and pay for stock in the Federal land bank with which it is connected in the sum of \$5 for each \$100 or fraction thereof borrowed; such stock shall be held by such Federal land bank as collateral security for the loan of the borrower; shall participate in all dividends; and upon full payment of the loan shall be canceled at par and proceeds paid to borrower, or the borrower may apply the same to the final payments on his loan.

Each Federal land bank shall be temporarily managed by five directors appointed by the Federal Farm Loan Board. Said directors shall be citizens of the United States and residents of the district. They shall each give a surety bond, the premium on which shall be paid from the funds of the bank. They shall receive such compensation as the Federal Farm Loan Board shall fix. They shall choose from their number, by majority vote, a president, a vice president, a secretary and a treasurer. They are further authorized and empowered to employ such attorneys, experts, assistants, clerks, laborers, and other employees as they may deem necessary, and to fix their compensation, subject to the approval of the Federal Farm Loan Board.

Said temporary directors shall, under their hands, forthwith make an organization certificate, which shall specifically state:

First. The name assumed by such bank.

Second. The district within which its operations are to be carried on, and the particular city in which its principal office is to be located.

Third. The amount of capital stock and the number of shares into which the same is to be divided; *Provided,* That every Federal land bank organized under this Act shall by its articles of association permit an increase of its capital stock from time to time for the purpose of providing for the issue of shares to national farm loan associations and stockholders who may secure loans through agents of Federal land banks in accordance with the provisions of this Act.

Fourth. The fact that the certificate is made to enable such persons to avail themselves of the advantages of this Act. The organization certificate shall be acknowledged before a judge or clerk of some court of record or notary public, and shall be, together with the acknowledgment thereof, authenticated by the seal of such court or notary, transmitted to the Farm Loan Commissioner, who shall record and carefully preserve the same in his office, where it shall be at all times open to public inspection.

The Federal Farm Loan Board is authorized to direct such changes in or additions to any such organization certificate, not inconsistent with this Act, as it may deem necessary or expedient.

Upon duly making and filing such organization certificate the bank shall become, as from the date of the execution of its organization certificate, a body corporate, and as such, and in the name designated in the organization certificate, it shall have power—

First. To adopt and use a corporate seal.

Second. To have succession until it is dissolved by Act of Congress or under the provisions of this Act.

Third. To make contracts.

Fourth. To sue and be sued, complain, interplead, and defend, in any court of law or equity, as fully as natural persons.

Fifth. To elect or appoint directors, and by its board of directors to elect a president and a vice president, appoint a secretary and a treasurer and other officers and employees, define their duties, require bonds of them, and fix the penalty thereof; by action of its board of directors dismiss such officers and employees, or any of them, at pleasure and appoint others to fill their places.

Sixth. To prescribe, by its board of directors, subject to the supervision and regulation of the Federal Farm Loan Board, by-laws not inconsistent with law, regulating the manner in which its stock shall be transferred, its directors elected, its officers elected or appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed.

Seventh. To exercise, by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business herein described.

After the subscriptions to stock in any Federal land bank by national farm loan associations, hereinafter authorized, shall have reached the sum of \$100,000, the officers and directors of said land bank shall be chosen as herein provided and shall, upon becoming duly qualified, take over the management of said land bank from the temporary officers selected under this section.

The board of directors of every Federal land bank shall be selected as hereinafter specified and shall consist of nine members, each holding office for three years. Six of said directors shall be known as local directors, and shall be chosen by and be representative of national farm loan associations; and the remaining three directors shall be known as district directors, and shall be appointed by the Federal Farm Loan Board and represent the public interest.

At least two months before each election the Farm Loan Commissioner shall notify each national farm loan association in writing that such election is to be held, giving the number of directors to be elected for its district, and requesting each association to nominate one candidate for each director to be elected. Within ten days of the receipt of such notice each associa-



tion shall forward its nominations to said Farm Loan Commissioner. Said commissioner shall prepare a list of candidates for local directors consisting of the twenty persons securing the highest number of votes from national farm loan associations making such nominations.

At least one month before said election said Farm Loan Commissioner shall mail to each national farm loan association the list of candidates. The directors of each national farm loan association shall cast the vote of said association for as many candidates on said list as there are vacancies to be filled, and shall forward said vote to the Farm Loan Commissioner within ten days after said list of candidates is received by them. The candidates receiving the highest number of votes shall be elected as local directors. In case of a tie the Farm Loan Commissioner shall determine the choice.

The Federal Farm Loan Board shall designate one of the district directors to serve for three years and to act as chairman of the board of directors. It shall designate one of said directors to serve for a term of two years and one to serve for a term of one year. After the first appointments each district director shall be appointed for a term of three years.

At the first regular meeting of the board of directors of each Federal land bank it shall be the duty of the local directors to designate two of the local directors whose term of office shall expire in one year from the date of such meeting, two whose term of office shall expire in two years from said date, and two whose term of office shall expire in three years from said date. Thereafter every local director of a Federal land bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the board of directors shall be filled for the unexpired term in the manner provided for the original selection of such directors.

Directors of Federal land banks shall have been for at least two years residents of the district for which they are appointed or elected, and at least one district director shall be experienced in practical farming and actually engaged at the time of his appointment in farming operations within the district. No director of a Federal land bank shall, during his continuance in office, act as an officer, director, or employee of any other institution, association, or partnership engaged in banking or in the business of making or selling land mortgage loans.

Directors of Federal land banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, to be paid by the respective Federal land banks. Any compensation that may be provided by boards of directors of Federal land banks for directors, officers, or employees shall be subject to the approval of the Federal Farm Loan Board.

#### CAPITAL STOCK OF FEDERAL LAND BANKS.

Sec. 5. That every Federal land bank shall have, before beginning business, a subscribed capital of not less than \$750,000. The Federal Farm Loan Board is authorized to prescribe the times and conditions of the payment of subscriptions to capital stock, to reject any subscription in its discretion, and to require subscribers to furnish adequate security for the payment thereof.

The capital stock of each Federal land bank shall be divided into shares of \$5 each, and may be subscribed for and held by any individual, firm, or corporation, or by the Government of any State or of the United States.

Stock held by national farm loan associations shall not be transferred or hypothecated, and the certificates therefor shall so state.

Stock owned by the Government of the United States in Federal land banks shall receive no dividends, but all other stock shall share in dividend distributions without preference. Each national farm loan association and the Government of the United States shall be entitled to one vote for each share of stock held by it in deciding all questions at meetings of shareholders, and no other shareholder shall be permitted to vote.

Stock owned by the United States shall be voted by the Farm Loan Commissioner, as directed by the Federal Farm Loan Board.

It shall be the duty of the Federal Farm Loan Board, as soon as practicable after the passage of this Act, to open books of subscription for the capital stock of a Federal land bank in each Federal land bank district. If within thirty days after the opening of said books any part of the minimum capitalization of \$750,000 herein prescribed for Federal land banks shall remain unsubscribed, it shall be the duty of the Secretary of the Treasury to subscribe the balance thereof on behalf of the United States, said subscription to be subject to call in whole or in part by the board of directors of said land bank upon thirty days' notice with the approval of the Federal Farm Loan Board; and the Secretary of the Treasury is hereby authorized and directed to take out shares corresponding to the unsubscribed balance as called, and to pay for the same out of any moneys in the Treasury not otherwise appropriated. Thereafter no stock shall be issued except as hereinafter provided.

After the subscriptions to capital stock by national farm loan associations shall amount to \$750,000 in any Federal land bank, said bank shall apply semiannually to the payment and retirement of the shares of stock which were issued to represent the subscriptions to the original capital twenty-five per centum of all sums thereafter subscribed to capital stock until all such original capital stock is retired at par.

At least twenty-five per centum of that part of the capital of any Federal land bank for which stock is outstanding in the name of national farm loan associations shall be held in quick assets, and may consist of cash in the vaults of said land bank, or in deposits in member banks of the Federal reserve system, or in readily marketable securities which are approved under rules and regulations of the Federal Farm Loan Board: *Provided*, That not less than five per centum of such capital shall be invested in United States Government bonds.

#### GOVERNMENT DEPOSITARIES.

Sec. 6. That all Federal land banks and joint stock land banks organized under this Act, when designated for that purpose by the Secretary of the Treasury, shall be depositaries of public money, except receipts from customs, under such regulations as may be prescribed by said Secretary; and they may also be employed, as financial agents of the Government; and they shall perform all such reasonable duties, as depositaries of public money and financial agents of the Government, as may be required of them. And the Secretary of the Treasury shall require of the Federal land banks and joint stock land banks thus designated satisfactory security, by the deposit of United States bonds or otherwise, for the safekeeping and prompt payment of the public money deposited with them, and for the faithful performance of their duties as financial agents of the Government. No Government funds deposited under the provisions of this section shall be invested in mortgage loans or farm loan bonds.

#### NATIONAL FARM LOAN ASSOCIATIONS.

Sec. 7. That corporations, to be known as national farm loan associations, may be organized by persons desiring to borrow money on farm mortgage security under the terms of this Act. Such persons shall enter into articles of association which shall specify in general terms the object for which the association is formed and the territory within which its operations are to be carried on, and which may contain any other provision, not inconsistent with law, which the association may see fit to adopt for the regulation of its business and the conduct of its affairs. Said articles shall be signed by the persons uniting to form the association, and a copy thereof shall be forwarded to the Federal land bank for the district, to be filed and preserved in its office.

Every national farm loan association shall elect, in the manner prescribed for the election



of directors of national banking associations, a board of not less than five directors, who shall hold office for the same period as directors of national banking associations. It shall be the duty of said board of directors to choose in such manner as they may prefer a secretary-treasurer, who shall receive such compensation as said board of directors shall determine. The board of directors shall elect a president, a vice president, and a loan committee of three members.

The directors and all officers except the secretary-treasurer shall serve without compensation, unless the payment of salaries to them shall be approved by the Federal Farm Loan Board. All officers and directors except the secretary-treasurer shall, during their term of office, be bona fide residents of the territory within which the association is authorized to do business, and shall be shareholders of the association.

It shall be the duty of the secretary-treasurer of every national farm loan association to act as custodian of its funds and to deposit the same in such bank as the board of directors may designate, to pay over to borrowers all sums received for their account from the Federal land bank upon first mortgage as in this Act prescribed, and to meet all other obligations of the association, subject to the orders of the board of directors and in accordance with the by-laws of the association. It shall be the duty of the secretary-treasurer, acting under the direction of the national farm loan association, to collect, receipt for, and transmit to the Federal land bank payments of interest, amortization installments, or principal arising out of loans made through the association. He shall be the custodian of the securities, records, papers, certificates of stock, and all documents relating to or bearing upon the conduct of the affairs of the association. He shall furnish a suitable surety bond to be prescribed and approved by the Federal Farm Loan Board for the proper performance of the duties imposed upon him under this Act, which shall cover prompt collection and transmission of funds. He shall make a quarterly report to the Federal Farm Loan Board upon forms to be provided for that purpose. Upon request from said board said secretary-treasurer shall furnish information regarding the condition of the national farm loan association for which he is acting, and he shall carry out all duly authorized orders of said board. He shall assure himself from time to time that the loans made through the national farm loan association of which he is an officer are applied to the purposes set forth in the application of the borrower as approved, and shall forthwith report to the land bank of the district any failure of any borrower to comply with the terms of his application or mortgage. He shall also ascertain and report to said bank the amount of any delinquent taxes on land mortgaged to said bank and the name of the delinquent.

The reasonable expenses of the secretary-treasurer, the loan committee, and other officers and agents of national farm loan associations, and the salary of the secretary-treasurer, shall be paid from the general funds of the association, and the board of directors is authorized to set aside such sums as it shall deem requisite for that purpose and for other expenses of said association. When no such funds are available, the board of directors may levy an assessment on members in proportion to the amount of stock held by each, which may be repaid as soon as funds are available, or it may secure an advance from the Federal land bank of the district, to be repaid with interest at the rate of six per centum per annum, from dividends belonging to said association. Said Federal land bank is hereby authorized to make such advance and to deduct such repayment.

Ten or more natural persons who are the owners, or about to become the owners, of farm land qualified as security for a mortgage loan under section twelve of this Act, may unite to form a national farm loan association. They shall organize subject to the requirements and the conditions specified in this section and in section four of this Act, so far as the same may

be applicable: *Provided*, That the board of directors may consist of five members only, and instead of a secretary and a treasurer there shall be a secretary-treasurer, who need not be a shareholder of the association.

When the articles of association are forwarded to the Federal land bank of the district as provided in this section, they shall be accompanied by the written report of the loan committee as required in section ten of this Act, and by an affidavit stating that each of the subscribers is the owner, or is about to become the owner, of farm land qualified under section twelve of this Act as the basis of a mortgage loan; that the loan desired by each person is not more than \$10,000, nor less than \$100, and that the aggregate of the desired loans is not less than \$20,000; that said affidavit is accompanied by a subscription to stock in the Federal land bank equal to five per centum of the aggregate sum desired on mortgage loans; and that a temporary organization of said association has been formed by the election of a board of directors, a loan committee, and a secretary-treasurer who subscribes to said affidavit, giving his residence and post office address.

Upon receipt of such articles of association, with the accompanying affidavit and stock subscription, the directors of said Federal land bank shall send an appraiser to investigate the solvency and character of the applicants and the value of their lands, and shall then determine whether in their judgment a charter should be granted to such association. They shall forward such articles of association and the accompanying affidavit to the Federal Farm Loan Board with their recommendation. If said recommendation is unfavorable, the charter shall be refused.

If said recommendation is favorable, the Federal Farm Loan Board shall thereupon grant a charter to the applicants therefor, designating the territory in which such association may make loans, and shall forward said charter to said applicants through said Federal land bank: *Provided*, That said Federal Farm Loan Board may for good cause shown in any case refuse to grant a charter.

Upon receipt of its charter such national farm loan association shall be authorized and empowered to receive from the Federal land bank of the district sums to be loaned to its members under the terms and conditions of this Act.

Whenever any national farm loan association shall desire to secure for any member a loan on first mortgage from the Federal land bank of its district it shall subscribe for capital stock of said land bank to the amount of five per centum of such loan, such subscription to be paid in cash upon the granting of the loan by said land bank. Such capital stock shall be held by said land bank as collateral security for the payment of said loan, but said association shall be paid any dividends accruing and payable on said capital stock while it is outstanding. Such stock may, in the discretion of the directors, and with the approval of the Federal Farm Loan Board, be paid off at par and retired, and it shall be so paid off and retired upon full payment of the mortgage loan. In such case the national farm loan association shall pay off at par and retire the corresponding shares of its stock which were issued when said land bank stock was issued. The capital stock of a Federal land bank shall not be reduced to an amount less than five per centum of the principal of the outstanding farm loan bonds issued by it.

#### CAPITAL STOCK OF NATIONAL FARM LOAN ASSOCIATIONS.

Sec. 8. That the shares in national farm loan associations shall be of the par of \$5 each.

Every shareholder shall be entitled to one vote on each share of stock held by him at all elections of directors and in deciding all questions at meetings of shareholders: *Provided*, That the maximum number of votes which may be cast by any one shareholder shall be twenty.

No persons but borrowers on farm land mortgages shall be members or shareholders of na-

tional farm loan associations. Any person desiring to borrow on farm land mortgage through a national farm loan association shall make application for membership and shall subscribe for shares of stock in such farm loan association to an amount equal to five per centum of the face of the desired loan, said subscription to be paid in cash upon the granting of the loan. If the application for membership is accepted and the loan is granted, the applicant shall, upon full payment therefor, become the owner of one share of capital stock in said loan association for each \$100 of the face of his loan, or any major fractional part thereof. Said capital stock shall be paid off at par and retired upon full payment of said loan. Said capital stock shall be held by said association as collateral security for the payment of said loan, but said borrower shall be paid any dividends accruing and payable on said capital stock while it is outstanding.

Every national farm loan association formed under this Act shall by its articles of association provide for an increase of its capital stock from time to time for the purpose of securing additional loans for its members and providing for the issue of shares to borrowers in accordance with the provisions of this Act. Such increases shall be included in the quarterly reports to the Federal Farm Loan Board.

#### NATIONAL FARM LOAN ASSOCIATIONS. —SPECIAL PROVISIONS.

Sec. 9. That any person whose application for membership is accepted by a national farm loan association shall be entitled to borrow money on farm land mortgage upon filing his application in accordance with section eight and otherwise complying with the terms of this Act whenever the Federal land bank of the district has funds available for that purpose, unless said land bank or the Federal Farm Loan Board shall, in its discretion, otherwise determine.

Any person desiring to secure a loan through a national farm loan association under the provisions of this Act may, at his option, borrow from the Federal land bank through such association the sum necessary to pay for shares of stock subscribed for by him in the national farm loan association, such sum to be made a part of the face of the loan and paid off in amortization payments: *Provided, however,* That such addition to the loan shall not be permitted to increase said loan above the limitation imposed in subsection fifth of section twelve.

Subject to rules and regulations prescribed by the Federal Farm Loan Board, any national farm loan association shall be entitled to retain as a commission from each interest payment on any loan indorsed by it an amount to be determined by said board not to exceed one-eighth of one per centum semiannually upon the unpaid principal of said loan, any amounts so retained as commissions to be deducted from dividends payable to such farm loan association by the Federal land bank, and to make application to the land bank of the district for loans not exceeding in the aggregate one-fourth of its total stock holdings in said land bank. The Federal land banks shall have power to make such loans to associations applying therefor and to charge interest at a rate not exceeding six per centum per annum.

Shareholders of every national farm loan association shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such association to the extent of the amount of stock owned by them at the par value thereof, in addition to the amount paid in and represented by their shares.

After a charter has been granted to a national farm loan association, any natural person who is the owner, or about to become the owner, of farm land qualified under section twelve of this Act as the basis of a mortgage loan, and who desires to borrow on a mortgage of such farm land, may become a member of the association by a two-thirds vote of the directors upon subscribing for one share of the capital stock of

such association for each \$100 of the face of his proposed loan or any major fractional part thereof. He shall at the same time file with the secretary-treasurer his application for a mortgage loan, giving the particulars required by section twelve of this Act.

#### APPRAISAL.

Sec. 10. That whenever an application for a mortgage loan is made to a national farm loan association, the loan committee provided for in section seven of this Act, shall forthwith make, or cause to be made, such investigation as it may deem necessary as to the character and solvency of the applicant, and the sufficiency of the security offered, and cause written report to be made of the result of such investigation, and shall, if it concurs in such report, approve the same in writing. No loan shall be made unless the report is favorable, and the loan committee is unanimous in its approval thereof.

The written report required in the preceding paragraph shall be submitted to the Federal land bank, together with the application for the loan, and the directors of said land bank shall examine said written report when they pass on the loan application which it accompanies, but they shall not be bound by said appraisal.

Before any mortgage loan is made by any Federal land bank, or joint stock land bank, it shall refer the application and written report of the loan committee to one or more of the land bank appraisers appointed under the authority of section three of this Act, and such appraiser or appraisers shall investigate and make a written report upon the land offered as security for said loan. No such loan shall be made by said land bank unless said written report is favorable.

Forms for appraisal reports for farm loan associations and land banks shall be prescribed by the Federal Farm Loan Board.

Land bank appraisers shall make such examinations and appraisals and conduct such investigations, concerning farm loan bonds and first mortgages, as the Federal Farm Loan Board shall direct.

No borrower under this Act shall be eligible as an appraiser under this section, but borrowers may act as members of a loan committee in any case where they are not personally interested in the loan under consideration. When any member of a loan committee or of a board of directors is interested, directly or indirectly, in a loan, a majority of the board of directors of any national farm loan association shall appoint a substitute to act in his place in passing upon such a loan.

#### POWERS OF NATIONAL FARM LOAN ASSOCIATIONS.

Sec. 11. That every national farm loan association shall have the power:

First. To indorse, and thereby become liable for the payment of, mortgages taken from its shareholders by the Federal land bank of its district.

Second. To receive from the Federal land bank of its district funds advanced by said land bank, and to deliver said funds to its shareholders on receipt of first mortgages qualified under section twelve of this Act.

Third. To fix reasonable initial charges to be made against applicants for loans and to borrowers in order to meet the necessary expenses of the association: *Provided,* That such charges shall not exceed amounts to be fixed by the Farm Loan Board, and shall in no case exceed one per centum of the amount of the loan applied for; to acquire and dispose of property, real and personal, that may be necessary or convenient for the transaction of its business.

Fourth. To issue certificates against deposits of current funds bearing interest for not longer than one year at not to exceed four per centum per annum after six days from date, convertible into farm loan bonds when presented at the Federal land bank of the district in the amount of \$25 or any multiple thereof. Such deposits, when received, shall be forthwith transmitted to said land bank, and be invested by it in the purchase of farm loan bonds issued by a Federal land bank or in first mortgages as defined by this Act.



## RESTRICTIONS ON LOANS BASED ON FIRST MORTGAGES.

Sec. 12. That no Federal land bank organized under this Act shall make loans except upon the following terms and conditions:

First. Said loans shall be secured by duly recorded first mortgages on farm land within the land bank district in which the bank is situated.

Second. Every such mortgage shall contain an agreement providing for the repayment of the loan on an amortization plan by means of a fixed number of annual or semiannual installments sufficient to cover, first, a charge on the loan, at a rate not exceeding the interest rate in the last series of farm loan bonds issued by the land bank making the loan; second, a charge for administration and profits at a rate not exceeding one per centum per annum on the unpaid principal, said two rates combined constituting the interest rate on the mortgage; and, third, such amounts to be applied on the principal as will extinguish the debt within an agreed period, not less than five years nor more than forty years: *Provided*, That after five years from the date upon which a loan is made the mortgagor may, upon any regular installment date, make in advance any number of payments or any portion thereof on account of the principal of his loan as provided by his contract or pay the entire principal of such loan, under the rules and regulations of the Federal Farm Loan Board: *And provided further*, That before the first issue of farm loan bonds by any land bank the interest rate on mortgages may be determined in the discretion of said land bank subject to the provisions and limitations of this Act.

Third. No loan on mortgage shall be made under this Act at a rate of interest exceeding six per centum per annum, exclusive of amortization payments.

Fourth. Such loans may be made for the following purposes and for no other:

(a) To provide for the purchase of land for agricultural uses.

(b) To provide for the purchase of equipment, fertilizers and live stock necessary for the proper and reasonable operation of the mortgaged farm; the term "equipment" to be defined by the Federal Farm Loan Board.

(c) To provide buildings and for the improvement of farm lands; the term "improvement" to be defined by the Federal Farm Loan Board.

(d) To liquidate indebtedness of the owner of the land mortgaged incurred for agricultural purposes, or incurred prior to the organization of the first farm loan association established in and for the county in which the land is situated.

Fifth. No such loan shall exceed fifty per centum of the value of the land mortgaged and twenty per centum of the value of the permanent, insured improvements thereon, said value to be ascertained by appraisal, as provided in section ten of this Act. In making said appraisal the value of the land for agricultural purposes shall be the basis of appraisal and the earning power of said land shall be a principal factor.

A reappraisal may be permitted at any time in the discretion of the Federal land bank, and such additional loan may be granted as such reappraisal will warrant under the provisions of this paragraph. Whenever the amount of the loan applied for exceeds the amount that may be loaned under the appraisal as herein limited, such loan may be granted to the amount permitted under the terms of this paragraph without requiring a new application or appraisal.

Sixth. No such loan shall be made to any person who is not at the time, or shortly to become, engaged in the cultivation of the farm mortgaged. In case of the sale of the mortgaged land, the Federal land bank may permit said mortgage and the stock interests of the vendor to be assumed by the purchaser. In case of the death of the mortgagor, his heir or heirs, or his legal representative or representatives, shall have the option, within sixty days of such death, to assume the mortgage and stock interests of the deceased.

Seventh. The amount of loans to any one borrower shall in no case exceed a maximum of

\$10,000, nor shall any loan be for a less sum than \$100.

Eighth. Every applicant for a loan under the terms of this Act shall make application on a form to be prescribed for that purpose by the Federal Farm Loan Board, and such applicant shall state the objects to which the proceeds of said loan are to be applied, and shall afford such other information as may be required.

Ninth. Every borrower shall pay simple interest on defaulted payments at the rate of eight per centum per annum, and by express covenant in his mortgage deed shall undertake to pay when due all taxes, liens, judgments, or assessments which may be lawfully assessed against the land mortgaged. Taxes, liens, judgments, or assessments not paid when due, and paid by the mortgagee, shall become a part of the mortgage debt and shall bear simple interest at the rate of eight per centum per annum. Every borrower shall undertake to keep insured to the satisfaction of the Federal Farm Loan Board all buildings the value of which was a factor in determining the amount of the loan. Insurance shall be made payable to the mortgagee as its interest may appear at time of loss, and, at the option of the mortgagor and subject to general regulations of the Federal Farm Loan Board, sums so received may be used to pay for reconstruction of the buildings destroyed.

Tenth. Every borrower who shall be granted a loan under the provisions of this Act shall enter into an agreement, in form and under conditions to be prescribed by the Federal Farm Loan Board, that if the whole or any portion of his loan shall be expended for purposes other than those specified in his original application, or if the borrower shall be in default in respect to any condition or covenant of the mortgage, the whole of said loan shall, at the option of the mortgagee, become due and payable forthwith: *Provided*, That the borrower may use part of said loan to pay for his stock in the farm loan association, and the land bank holding such mortgage may permit said loan to be used for any purpose specified in subsection fourth of this section.

Eleventh. That no loan or the mortgage securing the same shall be impaired or invalidated by reason of the exercise of any power by any Federal land bank or national farm loan association in excess of the powers herein granted or any limitations thereon.

Funds transmitted to farm loan associations by Federal land banks to be loaned to its members shall be in current funds, or farm loan bonds, at the option of the borrower.

## POWERS OF FEDERAL LAND BANKS.

Sec. 13. That every Federal land bank shall have power, subject to the limitations and requirements of this Act—

First. To issue, subject to the approval of the Federal Farm Loan Board, and to sell farm loan bonds of the kinds authorized in this Act, to buy the same for its own account, and to retire the same at or before maturity.

Second. To invest such funds as may be in its possession in the purchase of qualified first mortgages on farm lands situated within the Federal land bank district within which it is organized or for which it is acting.

Third. To receive and to deposit in trust with the farm loan registrar for the district, to be by him held as collateral security for farm loan bonds, first mortgages upon farm land qualified under section twelve of this Act, and to empower national farm loan associations, or duly authorized agents, to collect and immediately pay over to said land banks the dues, interest, amortization installments, and other sums payable under the terms, conditions, and covenants of the mortgages and of the bonds secured thereby.

Fourth. To acquire and dispose of—

(a) Such property, real or personal, as may be necessary or convenient for the transaction of its business, which, however, may be in part leased to others for revenue purposes.

(b) Parcels of land acquired in satisfaction of debts or purchased at sales under judgments, decrees, or mortgages held by it. But no such bank



shall hold title and possession of any real estate purchased or acquired to secure any debt due to it, for a longer period than five years, except with the special approval of the Federal Farm Loan Board in writing.

Fifth. To deposit its securities, and its current funds subject to check, with any member bank of the Federal Reserve System, and to receive interest on the same as may be agreed.

Sixth. To accept deposits of securities or of current funds from national farm loan associations holding its shares, but to pay no interest on such deposits.

Seventh. To borrow money, to give security therefor, and to pay interest thereon.

Eighth. To buy and sell United States bonds.

Ninth. To charge applicants for loans and borrowers, under rules and regulations promulgated by the Federal Farm Loan Board, reasonable fees not exceeding the actual cost of appraisal and determination of title. Legal fees and recording charges imposed by law in the State where the land to be mortgaged is located may also be included in the preliminary costs of negotiating mortgage loans. The borrower may pay such fees and charges or he may arrange with the Federal land bank making the loan to advance the same, in which case said expenses shall be made a part of the face of the loan and paid off in amortization payments. Such addition to the loan shall not be permitted to increase said loan above the limitations provided in section twelve.

#### RESTRICTIONS ON FEDERAL LAND BANKS.

Sec. 14. That no Federal land bank shall have power—

First. To accept deposits of current funds payable upon demand except from its own stockholders, or to transact any banking or other business not expressly authorized by the provisions of this Act.

Second. To loan on first mortgage except through national farm loan associations as provided in section seven and section eight of this Act, or through agents as provided in section fifteen.

Third. To accept any mortgages on real estate except first mortgages created subject to all limitations imposed by section twelve of this Act, and those taken as additional security for existing loans.

Fourth. To issue or obligate itself for outstanding farm loan bonds in excess of twenty times the amount of its capital and surplus, or to receive from any national farm loan association additional mortgages when the principal remaining unpaid upon mortgages already received from such association shall exceed twenty times the amount of its capital stock owned by such association.

Fifth. To demand or receive, under any form or pretense, any commission or charge not specifically authorized in this Act.

#### AGENTS OF FEDERAL LAND BANKS.

Sec. 15. That whenever, after this Act shall have been in effect one year, it shall appear to the Federal Farm Loan Board that national farm loan associations have not been formed, and are not likely to be formed, in any locality, because of peculiar local conditions, said board may, in its discretion, authorize Federal land banks to make loans on farm lands through agents approved by said board.

Such loans shall be subject to the same conditions and restrictions as if the same were made through national farm loan associations, and each borrower shall contribute five per centum of the amount of his loan to the capital of the Federal land bank, and shall become the owner of as much capital stock of the land bank as such contribution shall warrant.

No agent other than a duly incorporated bank, trust company, mortgage company, or savings institution, chartered by the State in which it has its principal office, shall be employed under the provisions of this section.

Federal land banks may pay to such agents the actual expense of appraising the land offered as security for a loan, examining and certifying the title thereof, and making, executing, and recording

the mortgage papers; and in addition may allow said agents not to exceed one-half of one per centum per annum upon the unpaid principal of said loan, such commission to be deducted from dividends payable to the borrower on his stock in the Federal land bank.

Actual expenses paid to agents under the provisions of this section shall be added to the face of the loan and paid off in amortization payments subject to the limitations provided in subsection ninth of section thirteen of this Act.

Said agents, when required by the Federal land banks, shall collect and forward to such banks without charge all interest and amortization payments on loans indorsed by them.

Any agent negotiating any such loans shall indorse the same and become liable for the payment thereof, and for any default by the mortgagor, on the same terms and under the same penalties as if the loan had been originally made by said agent as principal and sold by said agent to said land bank, but the aggregate of the unpaid principal of mortgage loans received from any such agent shall not exceed ten times its capital and surplus.

If at any time the district represented by any agent under the provisions of this section shall, in the judgment of the Federal Farm Loan Board, be adequately served by national farm loan associations, no further loans shall be negotiated therein by agents under this section.

#### JOINT STOCK LAND BANKS.

Sec. 16. That corporations, to be known as joint stock land banks, for carrying on the business of lending on farm mortgage security and issuing farm loan bonds, may be formed by any number of natural persons not less than ten. They shall be organized subject to the requirements and under the conditions set forth in section four of this Act, so far as the same may be applicable: *Provided*, that the board of directors of every joint stock land bank shall consist of not less than five members.

Shareholders of every joint stock land bank organized under this Act shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of stock owned by them at the par value thereof, in addition to the amount paid in and represented by their shares.

Except as otherwise provided, joint stock land banks shall have the powers of, and be subject to all the restrictions and conditions imposed on, Federal land banks by this Act, so far as such restrictions and conditions are applicable: *Provided, however*, That the Government of the United States shall not purchase or subscribe for any of the capital stock of any such bank; and each shareholder of any such bank shall have the same voting privileges as holders of shares in national banking associations.

No joint stock land bank shall have power to issue or obligate itself for outstanding farm loan bonds in excess of fifteen times the amount of its capital and surplus, or to receive deposits or to transact any banking or other business not expressly authorized by the provisions of this Act.

No joint stock land bank shall be authorized to do business until capital stock to the amount of at least \$250,000 has been subscribed, one-half thereof paid in cash and the balance subject to call by the board of directors, and a charter has been issued to it by the Federal Farm Loan Board.

No joint stock land bank shall issue any bonds until after the capital stock is entirely paid up.

Farm loan bonds issued by joint stock land banks shall be so engraved as to be readily distinguished in form and color from farm loan bonds issued by Federal land banks, and shall otherwise bear such distinguishing marks as the Federal Farm Loan Board shall direct.

Joint stock land banks shall not be subject to the provisions of subsection (b) of section seventeen of this Act as to interest rates on mortgage loans or farm loan bonds, nor to the provisions of subsections first, fourth, sixth, seventh, and tenth of section twelve as to restrictions on mortgage loans: *Provided, however*, That no loans shall

be made which are not secured by first mortgages on farm lands within the State in which such joint stock land bank has its principal office, or within some one State contiguous to such State. Such joint stock land banks shall be subject to all other restrictions on mortgage loans imposed on Federal land banks in section twelve of this Act.

Joint stock land banks shall in no case charge a rate of interest on farm loans exceeding by more than one per centum the rate of interest established for the last series of farm loan bonds issued by them.

Joint stock land banks shall in no case demand or receive, under any form or pretense, any commission or charge not specifically authorized in this Act.

Each joint stock land bank organized under this Act shall have authority to issue bonds based upon mortgages taken by it in accordance with the terms of this Act. Such bonds shall be in form prescribed by the Federal Farm Loan Board, and it shall be stated in such bonds that such bank is organized under section sixteen of this Act, is under Federal supervision, and operates under the provisions of this Act.

Any joint stock land bank organized and doing business under the provisions of this Act may go into voluntary liquidation by making provision, to be approved by the Federal Farm Loan Board, for the payment of its liabilities: *Provided*, That such method of liquidation shall have been duly authorized by a vote of at least two-thirds of the shareholders of such joint stock land bank at a regular meeting, or at a special meeting called for that purpose, of which at least ten days' notice in writing shall have been given to stockholders.

For the purpose of assisting in any such liquidation duly authorized as in the preceding paragraph provided, any Federal land bank may, with the approval of the Federal Farm Loan Board, acquire the assets and assume the liabilities of any joint stock land bank, and in such transaction may waive the provisions of this Act requiring such land bank to acquire its loans through only national farm loan associations, or agents, and those relating to status of borrower, purposes of loan, and also the limitation as to the amount of individual loans.

No Federal land bank shall assume the obligations of any joint stock land bank, in such manner as to make its outstanding obligations more than twenty times its capital stock, except by the creation of a special reserve equal to one-twentieth of the amount of such additional obligations assumed.

#### POWERS OF FEDERAL FARM LOAN BOARD.

Sec. 17. That the Federal Farm Loan Board shall have power—

(a) To organize and charter Federal land banks, and to charter national farm loan associations and joint stock land banks subject to the provisions of this Act, and in its discretion to authorize them to increase their capital stock.

(b) To review and alter at its discretion the rate of interest to be charged by Federal land banks for loans made by them under the provisions of this act, said rates to be uniform so far as practicable.

(c) To grant or refuse to Federal land banks, or joint stock land banks, authority to make any specific issue of farm loan bonds.

(d) To make rules and regulations respecting the charges made to borrowers on loans under this Act for expenses in appraisal, determination of title, and recording.

(e) To require reports and statements of condition and to make examinations of all banks or associations doing business under the provisions of this Act.

(f) To prescribe the form and terms of farm loan bonds, and the form, terms, and penal sums of all surety bonds required under this Act and of such other surety bonds as they shall deem necessary, such surety bonds to cover financial loss as well as faithful performance of duty.

(g) To require Federal land banks to pay forthwith to any Federal land bank their equitable proportion of any sums advanced by said land bank to pay the coupons of any other land bank, basing said required payments on the amount of farm

loan bonds issued by each land bank and actually outstanding at the time of such requirement.

(h) To suspend or to remove for cause any district director or any registrar, appraiser, examiner, or other official appointed by said board under authority of section three of this Act, the cause of such suspension or removal to be communicated forthwith in writing by the Federal Farm Loan Board to the person suspended or removed, and in case of a district director to the proper Federal land bank.

(i) To exercise general supervisory authority over the Federal land banks, the national farm loan associations, and the joint stock land banks herein provided for.

(j) To exercise such incidental powers as shall be necessary or requisite to fulfill its duties and carry out the purposes of this Act.

#### APPLICATIONS FOR FARM LOAN BONDS.

Sec. 18. That any Federal land bank, or joint stock land bank, which shall have voted to issue farm loan bonds under this Act, shall make written application to the Federal Farm Loan Board, through the farm loan registrar of the district, for approval of such issue. With said application said land bank shall tender to said farm loan registrar as collateral security first mortgages on farm lands qualified under the provisions of section twelve, section fifteen, or section sixteen of this Act, or United States Government bonds, not less in aggregate amount than the sum of the bonds proposed to be issued. Said bank shall furnish with such mortgages a schedule containing a description thereof and such further information as may be prescribed by the Federal Farm Loan Board.

Upon receipt of such application said farm loan registrar shall verify said schedule and shall transmit said application and said schedule to the Federal Farm Loan Board, giving such further information pertaining thereto as he may possess. The Federal Farm Loan Board shall forthwith cause to be made such investigation and appraisal of the securities tendered as it shall deem wise, and it shall grant in whole or in part, or reject entirely, such application.

The Federal Farm Loan Board shall promptly transmit its decision as to any issue of farm loan bonds to the land bank applying for the same and to the farm loan registrar of the district. Said registrar shall furnish, in writing, such information regarding any issue of farm loan bonds as the Federal Farm Loan Board may at any time require.

No issue of farm loan bonds shall be authorized unless the Federal Farm Loan Board shall approve such issue in writing.

#### ISSUE OF FARM LOAN BONDS

Sec. 19. That whenever any farm loan registrar shall receive from the Federal Farm Loan Board notice that it has approved any issue of farm loan bonds under the provisions of section eighteen he shall forthwith take such steps as may be necessary, in accordance with the provisions of this Act, to insure the prompt execution of said bonds and the delivery of the same to the land bank applying therefor.

Whenever the Federal Farm Loan Board shall reject entirely any application for an issue of farm loan bonds, the first mortgages and bonds tendered to the farm loan registrar as collateral security therefor shall be forthwith returned to said land bank by him.

Whenever the Federal Farm Loan Board shall approve an issue of farm loan bonds, the farm loan registrar having the custody of the first mortgages and bonds tendered as collateral security for such issue of bonds shall retain in his custody those first mortgages and bonds which are to be held as collateral security, and shall return to the bank owning the same any of said mortgages and bonds which are not to be held by him as collateral security. The land bank which is to issue said farm loan bonds shall transfer to said registrar, by assignment, in trust, all first mortgages and bonds which are to be held by said registrar as collateral security, said assignment providing for the right of redemption at any time by payment as provided in this Act and reserving the right of



substitution of other mortgages qualified under sections twelve, fifteen, and sixteen of this Act. Said mortgages and bonds shall be deposited in such deposit vault or bank as the Federal Farm Loan Board shall approve, subject to the control of said registrar and in his name as trustee for the bank issuing the farm loan bonds and for the prospective holders of said farm loan bonds.

No mortgage shall be accepted by a farm loan registrar from a land bank as part of an offering to secure an issue of farm loan bonds, either originally or by substitution, except first mortgages made subject to the conditions prescribed in said sections twelve, fifteen, and sixteen.

It shall be the duty of each farm loan registrar to see that the farm loan bonds delivered by him and outstanding do not exceed the amount of collateral security pledged therefor. Such registrar may, in his discretion, temporarily accept, in place of mortgages withdrawn, United States Government bonds or cash.

The Federal Farm Loan Board may, at any time, call upon any land bank for additional security to protect the bonds issued by it.

#### FORM OF FARM LOAN BONDS.

Sec. 20. That bonds provided for in this Act shall be issued in denominations of \$40, \$100, \$500, \$1,000, and such larger denominations as the Federal Farm Loan Board may authorize; they shall run for specified minimum and maximum periods, subject to payment and retirement, at the option of the land bank, at any time after the minimum period specified in the bonds, which shall not be longer than ten years from the date of their issue. They shall have interest coupons attached, payable semiannually, and shall be issued in series of not less than \$50,000, the amount and terms to be fixed by the Federal Farm Loan Board. They shall bear a rate of interest not to exceed five per centum per annum.

The Federal Farm Loan Board shall prescribe rules and regulations concerning the circumstances and manner in which farm loan bonds shall be paid and retired under the provisions of this Act.

Farm loan bonds shall be delivered through the registrar of the district to the bank applying for the same.

In order to furnish farm loan bonds for delivery at the Federal land banks and joint stock land banks, the Secretary of the Treasury is hereby authorized to prepare suitable bonds in such form, subject to the provisions of this Act, as the Federal Farm Loan Board may approve, such bonds when prepared to be held in the Treasury subject to delivery upon order of the Federal Farm Loan Board. The engraved plates, dies, bed-pieces, and so forth, executed in connection therewith shall remain in the custody of the Secretary of the Treasury. Any expenses incurred in the preparation, custody, and delivery of such farm loan bonds shall be paid by the Secretary of the Treasury from any funds in the Treasury not otherwise appropriated: *Provided, however,* That the Secretary shall be reimbursed for such expenditures by the Federal Farm Loan Board through assessment upon the farm land banks in proportion to the work executed. They may be exchanged into registered bonds of any amount, and re-exchanged into coupon bonds, at the option of the holder, under rules and regulations to be prescribed by the Federal Farm Loan Board.

#### SPECIAL PROVISIONS OF FARM LOAN BONDS.

Sec. 21. That each land bank shall be bound in all respects by the acts of its officers in signing and issuing farm loan bonds, and by the acts of the Federal Farm Loan Board in authorizing their issue.

Every Federal land bank issuing farm loan bonds shall be primarily liable therefor, and shall also be liable, upon presentation of farm loan bond coupons, for interest payments due upon any farm loan bonds issued by other Federal land banks and remaining unpaid in consequence of the default of such other land banks; and every such bank shall likewise be liable for such portion of the principal of farm loan bonds so issued as shall not be paid after the assets of any such other land banks shall have been liquidated and distributed: *Provided,*

That such losses, if any, either of interest or of principal, shall be assessed by the Federal Farm Loan Board against solvent land banks liable therefor in proportion to the amount of farm loan bonds which each may have outstanding at the time of such assessment.

Every Federal land bank shall by appropriate action of its board of directors, duly recorded in its minutes, obligate itself to become liable on farm loan bonds as provided in this section.

Every farm loan bond issued by a Federal land bank shall be signed by its president or vice president and attested by its secretary or assistant secretary. For the purpose of signing such bonds the board of directors of any Federal land bank is authorized to select a vice president who need not be a member of the board of directors; such bonds shall also contain on the face thereof a certificate signed by the Farm Loan Commissioner to the effect that it is issued under the authority of the Federal Farm Loan Act, has the approval in form and issue of the Federal Farm Loan Board, and is legal and regular in all respects; that it is not taxable by National, State, municipal, or local authority; that it is issued against collateral security of United States Government bonds, or indorsed first mortgages on farm lands, at least equal in amount to the bonds issued; and that all Federal land banks are liable for the payment of each bond.

#### APPLICATION OF AMORTIZATION AND INTEREST PAYMENTS.

Sec. 22. That whenever any Federal land bank, or joint stock land bank, shall receive any interest, amortization or other payments upon any first mortgage or bond pledged as collateral security for the issue of farm loan bonds, it shall forthwith notify the farm loan registrar of the items so received. Said registrar shall forthwith cause such payment to be duly credited upon the mortgage entitled to such credit. Whenever any such mortgage is paid in full, said registrar shall cause the same to be canceled and delivered to the proper land bank, which shall promptly satisfy and discharge the lien of record and transmit such canceled mortgage to the original maker thereof, or his heirs, administrators, executors, or assigns.

Upon written application by any Federal land bank, or joint stock land bank, to the farm loan registrar, it may be permitted, in the discretion of said registrar, to withdraw any mortgages or bonds pledged as collateral security under this Act, and to substitute therefor other similar mortgages or United States Government bonds not less in amount than the mortgages or bonds desired to be withdrawn.

Whenever any farm loan bonds, or coupons or interest payments of such bonds, are due under their terms, they shall be payable at the land bank by which they were issued, in gold or lawful money, and upon payment shall be duly canceled by said bank. At the discretion of the Federal Farm Loan Board, payment of any farm loan bond or coupon or interest payment may, however, be authorized to be made at any Federal land bank, any joint stock land bank, or any other bank, under rules and regulations to be prescribed by the Federal Farm Loan Board.

When any land bank shall surrender to the proper farm loan registrar any farm loan bonds of any series, canceled or uncanceled, said land bank shall be entitled to withdraw first mortgages and bonds pledged as collateral security for any of said series of farm loan bonds to an amount equal to the farm loan bonds so surrendered, and it shall be the duty of said registrar to permit and direct the delivery of such mortgages and bonds to such land bank.

Interest payments on hypothecated first mortgages shall be at the disposal of the land bank pledging the same, and shall be available for the payment of coupons and the interest of farm loan bonds as they become due.

Whenever any bond matures, or the interest on any registered bond is due, or the coupon on any coupon bond matures, and the same shall be presented for payment as provided in this Act, the full face value thereof shall be paid to the holder.



Amortization and other payments on the principal of first mortgages held by a farm loan registrar as collateral security for the issue of farm loan bonds shall constitute a trust fund in the hands of the Federal land bank or joint stock land bank receiving the same, and shall be applied or employed as follows:

In the case of a Federal land bank—

(a) To pay off farm loan bonds issued by said bank as they mature.

(b) To purchase at or below par farm loan bonds issued by said bank or by any other Federal land bank.

(c) To loan on first mortgages on farm lands within the land bank district, qualified under this Act as collateral security for an issue of farm loan bonds.

(d) To purchase United States Government bonds.

In the case of a joint stock land bank—

(a) To pay off farm loan bonds issued by said bank as they mature.

(b) To purchase at or below par farm loan bonds.

(c) To loan on first mortgages qualified under section sixteen of this Act.

(d) To purchase United States Government bonds.

The farm loan bonds, first mortgages, United States Government bonds, or cash constituting the trust fund aforesaid, shall be forthwith deposited with the farm loan registrar as substituted collateral security in place of the sums paid on the principal of indorsed mortgages held by him in trust.

Every Federal land bank, or joint stock land bank, shall notify the farm loan registrar of the disposition of all payments made on the principal of mortgages held as collateral security for an issue of farm loan bonds, and said registrar is authorized, at his discretion, to order any of such payments, or the proceeds thereof, wherever deposited or however invested, to be immediately transferred to his account as trustee aforesaid.

#### RESERVES AND DIVIDENDS OF LAND BANKS.

Sec. 23. That every Federal land bank, and every joint stock land bank, shall semiannually carry to reserve account twenty-five per centum of its net earnings until said reserve account shall show a credit balance equal to twenty per centum of the outstanding capital stock, five per centum of Whenever said reserve shall have been impaired, said balance of twenty per centum shall be fully restored before any dividends are paid. After said reserve has reached the sum of twenty per centum of the outstanding capital stock, five per centum of the net earnings shall be annually added thereto. For the period of two years from the date when any default occurs in the payment of the interest, amortization installments, or principal on any first mortgage, by both mortgagor and indorser, the amount so defaulted shall be carried to a suspense account, and at the end of the two-year period specified, unless collected, shall be debited to reserve account.

After deducting the twenty-five per centum or the five per centum hereinbefore directed to be deducted for credit to reserve account, any Federal land bank or joint stock land bank may declare a dividend to shareholders of the whole or any part of the balance of its net earnings. The reserves of land banks shall be invested in accordance with rules and regulations to be prescribed by the Federal Farm Loan Board.

#### RESERVE AND DIVIDENDS OF NATIONAL FARM LOAN ASSOCIATIONS.

Sec. 24. That every national farm loan association shall, out of its net earnings, semiannually carry to reserve account a sum not less than ten per centum of such net earnings until said reserve account shall show a credit balance equal to twenty per centum of the outstanding capital stock of said association.

Whenever said reserve shall have been impaired, said credit balance of twenty per centum shall be fully restored before any dividends are paid. After said reserve has reached said sum of twenty per

centum, two per centum of the net earnings shall be annually added thereto.

After deducting the ten per centum or the two per centum hereinbefore directed to be credited to reserve account, said association may, at its discretion, declare a dividend to shareholders of the whole or any part of the balance of said net earnings.

The reserves of farm loan associations shall be invested in accordance with rules and regulations to be prescribed by the Federal Farm Loan Board.

Whenever any farm loan association shall be voluntarily liquidated a sum equal to its reserve account as herein required shall be paid to and become the property of the Federal land bank in which such loan association may be a shareholder.

#### DEFAULTED LOANS.

Sec. 25. That if there shall be default under the terms of any indorsed first mortgage held by a Federal land bank under the provisions of this Act, the national farm loan association or agent through which said mortgage was received by said Federal land bank shall be notified of said default. Said association or agent may thereupon be required, within thirty days after such notice, to make good said default, either by payment of the amount unpaid thereon in cash, or by the substitution of an equal amount of farm loan bonds issued by said land bank, with all unmaturing coupons attached.

#### EXEMPTION FROM TAXATION.

Sec. 26. That every Federal land bank and every national farm loan association, including the capital and reserve or surplus therein and the income derived therefrom, shall be exempt from Federal, State, municipal, and local taxation, except taxes upon real estate held, purchased, or taken by said bank or association under the provisions of section eleven and section thirteen of this Act. First mortgages executed to Federal land banks, or to joint stock land banks, and farm loan bonds issued under the provisions of this Act, shall be deemed and held to be instrumentalities of the Government of the United States, and as such they and the income derived therefrom shall be exempt from Federal, State, municipal, and local taxation.

Nothing herein shall prevent the shares in any joint stock land bank from being included in the valuation of the personal property of the owner or holder of such shares, in assessing taxes imposed by authority of the State within which the bank is located; but such assessment and taxation shall be in manner and subject to the conditions and limitations contained in section fifty-two hundred and nineteen of the Revised Statutes with reference to the shares of national banking associations.

Nothing herein shall be construed to exempt the real property of Federal and joint stock land banks and national farm loan associations from either State, county, or municipal taxes, to the same extent, according to its value, as other real property is taxed.

#### INVESTMENT IN FARM LOAN BONDS.

Sec. 27. That farm loan bonds issued under the provisions of this Act by Federal land banks or joint stock land banks shall be a lawful investment for all fiduciary and trust funds, and may be accepted as security for all public deposits.

Any member bank of the Federal Reserve System may buy and sell farm loan bonds issued under the authority of this Act.

Any Federal reserve bank may buy and sell farm loan bonds issued under this Act to the same extent and subject to the same limitations placed upon the purchase and sale by said banks of State, county, district, and municipal bonds under subsection (b) of section fourteen of the Federal Reserve Act approved December twenty-third, nineteen hundred and thirteen.

#### EXAMINATIONS.

Sec. 28. That the Federal Farm Loan Board shall appoint as many land bank examiners as in its judgment may be required to make careful examinations of the banks and associations permitted to do business under this Act.

Said examiners shall be subject to the same requirements, responsibilities and penalties as are applicable to national bank examiners under the national bank Act, the Federal Reserve Act and other provisions of law. Whenever directed by the Federal Farm Loan Board, said examiners shall examine the condition of any national farm loan association and report the same to the Farm Loan Commissioner. They shall examine and report the condition of every Federal land bank and joint stock land bank at least twice each year.

Said examiners shall receive salaries to be fixed by the Federal Farm Loan Board.

#### DISSOLUTION AND APPOINTMENT OF RECEIVERS.

Sec. 29. That upon receiving satisfactory evidence that any national farm loan association has failed to meet its outstanding obligations of any description the Federal Farm Loan Board may forthwith declare such association insolvent and appoint a receiver and require of him such bond and security as it deems proper: *Provided*, That no national farm loan association shall be declared insolvent by said board until the total amount of defaults of current interest and amortization installments on loans indorsed by national farm loan associations shall amount to at least \$150,000 in the Federal land bank district, unless such association shall have been in default for a period of two years. Such receiver, under the direction of the Federal Farm Loan Board, shall take possession of the books, records, and assets of every description of such association, collect all debts, dues, and claims belonging to it, and, with the approval of the Federal Farm Loan Board, or upon the order of a court of record of competent jurisdiction, may sell or compound all bad or doubtful debts, and, on a like approval or order, may sell all the real and personal property of such association, on such terms as the Federal Farm Loan Board or said court shall direct.

Such receiver shall pay over all money so collected to the Treasurer of the United States, subject to the order of the Federal Farm Loan Board, and also make report to said board of all his acts and proceedings. The Secretary of the Treasury shall have authority to deposit at interest any money so received.

Upon default of any obligation, Federal land banks and joint stock land banks may be declared insolvent and placed in the hands of a receiver by the Federal Farm Loan Board, and proceedings shall thereupon be had in accordance with the provisions of this section regarding national farm loan associations.

If any national farm loan association shall be declared insolvent and a receiver shall be appointed therefor by the Federal Farm Loan Board, the stock held by it in the Federal land bank of its district shall be canceled without impairment of its liability and all payments on such stock, with accrued dividends, if any, since the date of the last dividend shall be first applied to all debts of the insolvent farm loan association to the Federal land bank and the balance, if any, shall be paid to the receiver of said farm loan association: *Provided*, That in estimating said debts contingent liabilities incurred by national farm loan associations under the provisions of this Act on account of default of principal or interest of indorsed mortgages shall be estimated and included as a debt, and said contingent liabilities shall be determined by agreement between the receiver and the Federal land bank of the district, subject to the approval of the Federal Farm Loan Board, and if said receiver and said land bank cannot agree, then by the decision of the Farm Loan Commissioner, and the amount thus ascertained shall be deducted in accordance with the provisions of this section from the amount otherwise due said national farm loan association for said canceled stock. Whenever the capital stock of a Federal land bank shall be reduced, the board of directors shall cause to be executed a certificate to the Federal Farm Loan Board, showing such reduction of capital stock, and, if said reduction shall be due to the insolvency of a national farm loan association, the amount repaid to such association.

No national farm loan association, Federal land bank or joint stock land bank shall go into volun-

tary liquidation without the written consent of the Federal Farm Loan Board, but national farm loan associations may consolidate under rules and regulations promulgated by the Federal Farm Loan Board.

#### STATE LEGISLATION.

Sec. 30. That it shall be the duty of the Farm Loan Commissioner to make examination of the laws of every State of the United States and to inform the Federal Farm Loan Board as rapidly as may be whether in his judgment the laws of each State relating to the conveying and recording of land titles, and the foreclosure of mortgages or other instruments securing loans, as well as providing homestead and other exemptions and granting the power to waive such exemptions as respects first mortgages, are such as to assure the holder thereof adequate safeguards against loss in the event of default on loans secured by any such mortgages.

Pending the making of such examination in the case of any State, the Federal Farm Loan Board may declare first mortgages on farm lands situated within such State ineligible as the basis for an issue of farm loan bonds; and if said examination shall show that the laws of any such State afford insufficient protection to the holder of first mortgages of the kinds provided in this Act, said Federal Farm Loan Board may declare said first mortgages on land situated in such State ineligible during the continuance of the laws in question. In making his examination of the laws of the several States and forming his conclusions thereon said Farm Loan Commissioner may call upon the office of the Attorney General of the United States for any needed legal advice or assistance, or may employ special counsel in any State where he considers such action necessary.

At the request of the Executive of any State the Federal Farm Loan Board shall prepare a statement setting forth in what respects the requirements of said board cannot be complied with under the existing laws of such State.

#### PENALTIES.

Sec. 31. That any applicant for a loan under this Act who shall knowingly make any false statement in his application for such loan, and any member of a loan committee or any appraiser provided for in this Act who shall willfully overvalue any land offered as security for loans under this Act, shall be punished by a fine of not exceeding \$5,000, or by imprisonment not exceeding one year, or both. Any examiner appointed under this Act who shall accept a loan or gratuity from any land bank or national farm loan association examined by him, or from any person connected with any such bank or association in any capacity, shall be punished by a fine of not exceeding \$5,000, or by imprisonment not exceeding one year, or both, and may be fined a further sum equal to the money so loaned or gratuity given, and shall forever thereafter be disqualified from holding office as an examiner under the provisions of this Act. No examiner, while holding such office, shall perform any other service for compensation for any bank or banking or loan association, or for any person connected therewith in any capacity.

Any person who shall falsely make, forge, or counterfeit, or cause or procure to be falsely made, forged, or counterfeited, or willingly aid or assist in falsely making, forging, or counterfeiting any bond, coupon, or paper in imitation of, or purporting to be an imitation of, the bonds or coupons issued by any land bank or national farm loan association, now or hereafter authorized and acting under the laws of the United States; or any person who shall pass, utter, or publish, or attempt to pass, utter, or publish any false, forged, or counterfeited bond, coupon, or paper purporting to be issued by any such bank or association, knowing the same to be falsely made, forged, or counterfeited; or whoever shall falsely alter, or cause or procure to be falsely altered, or shall willingly aid or assist in falsely altering any such bond, coupon, or paper, or shall pass, utter, or publish as true any falsely altered or spurious bond, coupon, or paper issued, or purporting to have been issued, by any such bank or association,



knowing the same to be falsely altered or spurious, shall be punished by a fine of not exceeding \$5,000 or by imprisonment not exceeding five years, or both.

Other than the usual salary or directors' fee paid to any officer, director, or employee of a national farm loan association, a Federal land bank, or a joint stock land bank, and other than a reasonable fee paid by such association or bank to any officer, director, attorney, or employee for services rendered, no officer, director, attorney, or employee of an association or bank organized under this Act shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of such association or bank. No land bank or national farm loan association organized under this Act shall charge or receive any fee, commission, bonus, gift, or other consideration not herein specifically authorized. No examiner, public or private, shall disclose the names of borrowers to other than the proper officers of a national farm loan association or land bank without first having obtained express permission in writing from the Farm Loan Commissioner or from the board of directors of such association or bank, except when ordered to do so by a court of competent jurisdiction or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress or of either House duly authorized. Any person violating any provision of this paragraph shall be punished by a fine of not exceeding \$5,000 or by imprisonment not exceeding one year, or both.

Any person connected in any capacity with any national farm loan association, Federal land bank, or joint stock land bank, who embezzles, abstracts, or willfully misapplies any moneys, funds, or credits thereof, or who without authority from the directors draws any order, assigns any note, bond, draft, mortgage, judgment, or decree thereof, or who makes any false entry in any book, report, or statement of such association or land bank with intent in either case to defraud such institution or any other company, body politic or corporate, or any individual person, or to deceive any officer of a national farm loan association or land bank or any agent appointed to examine into the affairs of any such association or bank, and every person who with like intent aids or abets any officer, clerk, or agent in any violation of this section, shall be punished by a fine of not exceeding \$5,000 or by imprisonment not exceeding five years, or both.

Any person who shall deceive, defraud, or impose upon, or who shall attempt to deceive, defraud, or impose upon, any person, firm, or corporation by making any false pretense or representation regarding the character, issue, security, or terms of any farm loan bond, or coupon, issued under the terms of this Act; or by falsely pretending or representing that any farm loan bond, or coupon, issued under the terms of this Act by one class of land banks is a farm loan bond, or coupon, issued by another class of banks; or by falsely pretending or representing that any farm loan bond, or coupon, issued under the terms of this Act, or anything contained in said farm loan bond, or coupon, is anything other than, or different from, what it purports to be on the face of said bond or coupon, shall be fined not exceeding \$500 or imprisoned not exceeding one year, or both.

The Secretary of the Treasury is hereby authorized to direct and use the Secret Service Division of the Treasury Department to detect, arrest, and deliver into custody of the United States marshal having jurisdiction, any person or persons violating any of the provisions of this section.

#### GOVERNMENT DEPOSITS.

Sec. 32. That the Secretary of the Treasury is authorized, in his discretion, upon the request of the Federal Farm Loan Board, to make deposits for the temporary use of any Federal land bank, out of any money in the Treasury not otherwise appropriated. Such Federal land bank shall issue to the Secretary of the Treasury a certificate of indebtedness for any such deposit, bearing a rate

of interest not to exceed the current rate charged for other Government deposits, to be secured by farm loan bonds or other collateral, to the satisfaction of the Secretary of the Treasury. Any such certificate shall be redeemed and paid by such land bank at the discretion of the Secretary of the Treasury. The aggregate of all sums so deposited by the Secretary of the Treasury shall not exceed the sum of \$6,000,000 at any one time.

Until such time as the aggregate paid-in capital stock of the twelve Federal land banks shall be \$50,000,000, or more, the Secretary of the Treasury may in his discretion make deposits in addition to those authorized by the preceding paragraph, to be secured, redeemed, and paid in the same manner as provided in such paragraph, except that any additional deposit made hereunder shall be called by the Secretary of the Treasury and redeemed by the bank or banks holding the same, within fifteen days after the conclusion of each general offering of farm loan bonds by such bank or banks. The aggregate of such additional deposits outstanding at any time shall not exceed the difference between the aggregate paid-in capital stock of the twelve Federal land banks on the last day of the preceding month, and the sum of \$50,000,000. The certificates of indebtedness issued to the Secretary of the Treasury by the Federal land bank for such additional deposits shall bear a rate of interest not exceeding by more than one-half of one per centum per annum the rate borne by the last bond issue of the land bank receiving such deposits.

#### ORGANIZATION EXPENSES.

Sec. 33. That the sum of \$100,000, or so much thereof as may be necessary, is hereby appropriated, out of any money in the Treasury not otherwise appropriated, to be expended under the direction of the Federal Farm Loan Board, for the purpose of carrying into effect the provisions of this Act, including the rent and equipment of necessary offices.

#### LIMITATION OF COURT DECISIONS.

Sec. 34. That if any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

#### REPEALING CLAUSE.

Sec. 35. That all Acts or parts of Acts inconsistent with this Act are hereby repealed, and this Act shall take effect upon its passage. The right to amend, alter, or repeal this Act is hereby expressly reserved.

Approved, July 17, 1916.

## Federal Farm Loan Board

The board upon whom the general supervision of the Federal Farm Loan System rests. It is composed of the Secretary of the Treasury (ex-officio) and four other members appointed by the President. The powers and duties of the Federal Farm Loan Board in relation to the Federal Farm Loan System are analogous to those of the Federal Reserve Board in the supervision of the Federal Reserve System. The board supervises the operations of the Federal land banks, farm loan associations, and joint-stock land banks, regulates interest rates and charges on farm mortgage loans, supervises the issue of farm loan bonds, conducts examinations of the banks under their jurisdiction,



issues regulations for the guidance of the land banks and farm loan associations, and issues reports showing the condition of the banks and of agricultural credit.

The board is located in Washington, D. C. (See Federal Farm Loan System.)

### Federal Farm Loan Board Rulings and Regulations

The Federal Farm Loan Act requires the Farm Loan Board to define certain terms and to make rules and regulations for carrying out the provisions of the act. Since the establishment of the Federal farm loan system various questions have arisen which have required that the board make decisions thereon in addition to making definitions of certain terms in the act itself. These definitions and decisions affect directly or indirectly the Federal land banks, joint stock land banks, and National farm loan associations, which organizations are authorized under the law. In many cases these definitions and decisions are of particular importance to the members and officers of farm loan associations, as well as being of some interest to the general public. It has been deemed best, therefore, to present in circular form the definitions and decisions that have been thus far made by the Federal Farm Loan Board.

The definitions, rulings, and regulations hereby presented are classified under headings dealing particularly with some definite subject connected with the interpretation and operation of the provisions of the farm loan act.

#### FEDERAL FARM LOAN BOARD RULINGS AND REGULATIONS.

##### DEFINITIONS.

1. *Equipment.*—Under the term equipment may be included the implements needed in the conduct of a farm to facilitate its operation. It may consist of teams, as well as machinery, tools, and like articles.

2. *Improvements.*—Under this term is included anything in the form of beneficial structure, or any useful, permanent physical change tending to increase productive value, such as clearing, tiling, draining, fencing, buildings, etc.

3. *Actual farmer.*—An actual farmer is one who conducts the farm and directs its entire operation, cultivating the same with his own hands or by means of hired labor. An owner, to borrow under the farm loan act, must be responsible in every way, financially and otherwise, for the cultivation of his land. (See also Rule No. 15.)

4. *Area of farms.*—As a basis of determining what area constitutes a farm for loaning purposes the board requires the following test:

(1) Generally: The farm must be of sufficient area to yield at the hands of an ordinarily capable farmer, putting it to the use to which it is generally adapted and using average methods, an income sufficient to maintain the family of the applicant and discharge the interest and amortization payments on his loan.

(2) Specially: Where, through intensive farming or the practice of a specialty, a sufficient income has been regularly derived from a tract deficient

in area for ordinary farming, or where the application of the prospective borrower shows that he is by experience capable of producing such an income from such a tract, such area may be accepted as sufficient, provided the land has a stable and permanent market value sufficient to warrant the loan applied for. This ruling does not apply to fruit and orchard lands which have been the subjects of definite rulings by the board.

##### FEDERAL LAND BANKS.

1. *Surety bonds of officials.*—The surety bond to be executed as required by the Federal farm loan act, by the president, secretary, and treasurer of each Federal land bank, is fixed at the sum of \$20,000 each; the bond required of the vice president is fixed at \$10,000; and the bond of the remaining director is fixed at \$2,000. The registrar shall be the custodian of the surety bonds given by the officers and directors of the Federal land banks.

2. *Qualifications of officials.*—Section 3 of the Federal farm loan act, in reference to the qualifications of registrars, land bank appraisers, and land bank examiners, means that no person who is a stockholder in any bank, or in any corporation making land mortgage loans or selling land mortgages, is eligible to any one of the above-named offices, except for temporary appointment.

3. *Rate of interest.*—In view of the change in interest rates as a result of post-war conditions, the Farm Loan Board recommended to the Federal land banks after the decision of the Supreme Court of the United States on February 28, 1921, sustaining the constitutionality of the farm loan act, that the interest rate on mortgages be increased to 6 per cent until such time as interest rates return to a more normal basis. This rate of interest was adopted by all the Federal land banks and has since been in force.

4. *Kind of abstract.*—The Federal land banks must determine the nature of the abstracts which will be required with the applications for loans. The abstracts may be prepared by bonded abstractors, attorneys, or anyone competent to do this work. Any abstract of title sanctioned by ordinary sound business usage in a community where loans are made will be sufficient under the farm loan act.

5. *Charge for examining abstract.*—When abstracts are furnished by the borrower, the examination of the abstract will be made by the general attorney of each Federal land bank at its office. In districts where abstracts are not obtainable except by examination of the public records, then the borrower will have to bear the cost of examination. The board has permitted the Federal land banks to make a nominal charge for the determination of title from an abstract of title when presented to the bank with the application for a loan.

##### NATIONAL FARM LOAN ASSOCIATIONS.

1. *Condition for a charter.*—Where in the organization of a national farm loan association the accepted number of borrowers is less than 10, or the amount of approved loans is less than \$20,000, a charter will not be granted.

2. *Territory covered by an association.*—No farm loan association may operate in territory covering any part of two States. In defining the territory within which an association will do business, said territory must be entirely within the boundary of a single State. But the overlapping of the territories of different national farm loan associations is permissible when confined within State lines. No monopoly of territory will be allowed.

3. *Oath of directors.*—The act provides that every national farm loan association shall elect in the manner prescribed for the election of directors of national banking associations a board of not less than five directors, who shall hold office for the same period as directors of national banking associations. In view of the fact that directors of national banks are required to be sworn, the question was raised whether or not directors of national farm loan associations should be sworn. The board believes that the directors of farm loan associations should be put to the least possible

trouble; that no requirement should be made that is not legally necessary; and that the omission of the oath in their case is permissible.

4. *Officers as members of loan committees.*—Members of the board of directors of national farm loan associations are considered eligible to serve on loan committees, and where the secretary-treasurer is a member of the association he may also serve on the loan committee if elected to such position by the board of directors.

5. *Surety bond of the secretary-treasurer.*—The surety bond of each secretary-treasurer of a farm loan association shall be deposited with the Federal land bank of its district to be held as custodian, and all such bonds are to be written in favor of the farm loan association (of which said secretary-treasurer is an official) or the Federal land bank "as interest may appear." The condition of each surety bond has been prescribed and can be had on application.

The amount of the bond has been fixed on a sliding scale as follows: For associations with loans under \$50,000, bond of \$3,500; for each additional \$10,000 or fraction thereof, add \$600 up to a maximum of \$10,000, which will be the largest bond required of any secretary-treasurer.

6. *Compensation of a secretary-treasurer.*—In the judgment of the board the compensation of a secretary-treasurer of a farm loan association depends so much upon his relative duties as made necessary by the size of an association that it is difficult to name any definite amount as compensation for such services. The compensation should be based upon the time actually required to perform the work the secretary-treasurer is called upon to do.

7. *Voting of members in preliminary organizations.*—In view of the fact that prior to the approval of an application for a loan the amount of stock which each member will acquire is undetermined, the board is of the opinion that it would be the part of wisdom if each subscriber was limited to one vote in matters discussed and decided in the preliminary organization of a farm loan association.

8. *Basis of membership in an association.*—Where a person resides in one district or State and owns land in another district or State, the location of the land which is offered as security for the loan shall be the determining factor as to the eligibility for membership of an applicant; that is to say, an applicant for a loan must become a member of an association which includes within its territory the land offered as security.

9. *Membership as affected by residence.*—(1) If any part of a farm is within the territory of a chartered association the owner should be eligible to membership in that association no matter which side of the line he may happen to live.

(2) Where a part of such farm lies within the territory of two chartered associations he should be permitted to choose which association he shall join, no matter on which side of the line he may live.

(3) Under the preceding paragraph where the lands are noncontiguous they will be considered as a farm only if under common management and situated in such proximity to each other as to constitute practically one operative agricultural unit.

(4) Where the line is a State line as well as a county line the borrower, if he wishes to make loans on lands on both sides of the line, must make separate loans and join separate associations, whether the lands are contiguous or not.

10. *Eligibility of guardians to membership.*—Guardians, executors, administrators, and trustees are not "natural persons," and are therefore excluded from membership in national farm loan associations by the provisions of section 7 of the Federal farm loan act, except where the guardian is father, mother, husband, wife, brother, or sister, and has a joint interest in the property with the ward, in which case such loans may be made. Under these circumstances the guardian will, of course, sign the note and mortgage individually, as well as officially, and will act as member of the farm loan association.

11. *Eligibility of aliens to membership.*—Where State laws do not restrict the right of aliens to hold and convey real estate, alien residents of such State are eligible as members of national farm loan associations.

12. *Notice to stockholders of meetings.*—(1) Who is entitled to notice: In article 3 of the by-laws the secretary-treasurer is required to give notice to "the members for a prescribed period prior to the date of meeting." The board rules that a charter member who signs a charter is a stockholder from the date of his signature, and that a noncharter member is not a stockholder, and hence not entitled to notice until his loan is approved and his stock has been issued.

(2) Form of notice: The articles of association for farm loan associations also provide that the directors thereof shall be selected at an annual meeting of the stockholders to be held on the second Tuesday in January at a place to be designated by the board of directors at least 30 days before such meeting. The board rules as a matter of practice that it would be well if written notice were given to all stockholders a reasonable time prior to the annual meeting.

13. *Disposition of member's stock in case of foreclosure.*—By section 2 of article 1 of the by-laws of farm loan associations it is provided that membership in the association shall terminate with the payment of the loan, but there appears to be no provision for the termination of membership upon the sale of the borrower's property (except by implication in subdivision 6, sec. 12 of the act, where it is stated that "in case of the sale of the mortgaged land, the Federal land bank may permit said mortgage and the stock interests of the vendor to be assumed by the purchaser").

In this connection the question has arisen as to the disposition of a borrower's stock in event of foreclosure. While the law is silent upon the question, the board believes that in the event of foreclosure the borrower's stock should be canceled and the money returned to him or applied on his debt, as exigencies of the situation might require.

14. *Joint owners of land.*—Any one of joint owners of land who is himself eligible as a member of a national farm loan association may sign articles of association and participate in preliminary organization; such person may be a director or a member of a loan committee, but the stock should be issued jointly to the joint owners who sign the mortgage, and after the issuance of stock the active member should have a voting proxy from the other joint owners of stock.

15. *Voting by proxy.*—(1) At the annual election of directors by national farm loan associations voting by proxy shall not be permitted, except as follows:

(2) Stockholders of a national farm loan association may vote by proxy where the proxy holder is a joint owner of the stock.

(3) A married woman who is a stockholder in a national farm loan association may give her husband a proxy authorizing him to represent her and vote her stock at shareholders' meetings of such association; but such proxy will not render the holder eligible to any office in the association.

16. *Duties of loan committee.*—The regular loan committee of a national farm loan association will be required to make appraisements, except where substitutes are provided under the law. It is the conclusion of the board that there can be but one regular loan committee for each association. (See also amendment to the farm loan act on page 5 of Circular No. 11, which permits the loan committee to designate one person to appraise an applicant's farm.)

17. *Substitute member of loan committee.*—A farm loan association may appoint a substitute member of a loan committee to act in any case where a regular member of the committee is incapacitated or otherwise unable to act.

18. *Compensation of loan committee.*—The compensation of a regular loan committee depends upon the size of the association and the work required. No fixed rule, therefore, can be laid down. The board believes that so far as possible the work should be done without expense, since



this is a cooperative system by farmers and for farmers. In a small association the board believes that it is not necessary to pay the loan committee any fees, and that in very few cases will it be necessary to pay the loan committee more than its actual expenses. (See also note by the Farm Loan Board to an amendment to the farm loan act appearing on page 6 of Circular No. 11.)

19. *The basis for appraising lands.*—The appraisement of a farm should represent the best judgment of the members of the loan committee as to the value of the land in question, the principal factor being the productivity of the land when used for agricultural purposes, but taking also into consideration the salability of the land and prevailing land prices in that community.

20. *Report of loan committee.*—Section 10 of the act provides that a loan committee, in addition to the appraisal of the land, shall give "such other information as may be required by rules and regulations to be prescribed by the Federal Farm Loan Board."

On this proposition the board feels that conditions vary so greatly in different localities that it is difficult to provide a general uniform rule, and that the matter of furnishing such other information by the loan committee may better be left to the good judgment of each Federal land bank.

21. *Communications with farm loan associations.*—In dealing with farm loan associations, the Federal Farm Loan Board will conduct business through the secretary-treasurer and not through an attorney who may have been appointed by any particular farm loan association.

22. *Attorney for associations to make abstracts.*—In answer to an inquiry whether or not an association has the right to appoint an attorney to draw up abstracts and pay him out of its official funds, the board rules that each borrower is required to furnish his own abstract of title, and the applicant must stand the expense of preparing this abstract. An association has no right to employ any of its funds to pay for the preparation of abstracts for its members. This must be an individual charge, and if members of an association club together to have this work jointly done, they must do it as individuals and not as an association. Each borrower is free to make his own choice in the selection of an attorney or abstractor, subject to the approval of the Federal land bank of his district.

23. *Consolidation of associations.*—Where two or more national farm loan associations have been chartered, operating in territory which can legally be covered by one association, and desire to be consolidated into one association, the general result to be attained is that the liquidating association or associations shall turn over all assets to the nonliquidating association, the latter assuming all the liabilities of the former. To attain this result, the following steps are necessary:

1. Where the name of an existing association is retained as the consolidated name and the others are to discontinue business.

(1) The association or associations retiring from business must call a meeting of shareholders, who must, by resolutions approved by two-thirds of its members, decide to go into voluntary liquidation and authorize its board of directors to take the necessary steps to render such resolution effective.

(2) The board of directors by proper resolution shall direct that the stock of the Federal land bank held by such liquidating association shall be transferred to the nonliquidating association which assumes its contingent liabilities as indorser on outstanding mortgages.

(3) All stock of the liquidating association shall be canceled, and if any certificates or evidences of ownership are outstanding in the hands of its members or elsewhere, such certificates shall be retired and other similar certificates of the nonliquidating association be substituted therefor.

(4) The Federal land bank of the district will require the indorsement for transfer of the liquidating association of its stock held by such association, and issue in substitution there-

for similar stock in the name of the nonliquidating association.

(5) The board of directors of the nonliquidating association will, by resolution entered upon its minutes, assume the liabilities of the liquidating association as indorser on all mortgages held by the Federal land bank bearing such indorsement and certify the same to the Federal land bank.

2. In case the consolidating associations desire to assume a new name the nonliquidating association will file application to amend its charter so as to assume the desired name and also to amend its charter as to territorial boundaries so as to include all of the desired territory.

When the necessary papers are executed, they should be forwarded through the Federal land bank to the Farm Loan Board for approval, as required by section 29 of the farm loan act. The necessary blank forms for use in such cases will be forwarded without cost to associations by the Federal Farm Loan Bureau, Washington, D.C.

24. *Investment of reserves.*—The Farm Loan Board has approved the following methods of investing the reserves of national farm loan associations: (1) In Federal farm loan bonds; (2) in obligations of the United States Government; and (3) in certificates of deposit in a bank approved by the board of directors of an association.

#### BASIS FOR LOANS

1. *On orchard lands.*—On orchards, where the lands have no substantial value except for orchard purposes, no loans shall be made; that where the lands have a basic agricultural value, such value shall be made the basis for the loans; and that orchards shall not be regarded as permanent improvements, but shall be taken into consideration as enhancing the general value of land and in determining its productive value.

2. *On farm lands with underlying minerals.*—Loans will be made on lands which are primarily agricultural lands on which there are leases carrying the right to remove oils, gases, or other minerals, provided that the extent to which such right may interfere with the use of the land for agricultural purposes be taken into consideration, and that the land bank indemnify itself by requiring the borrower to include in his mortgage all rights under such leases and agree therein that the proceeds from such leases shall be applied to the payment of the mortgage.

3. *On lands under drainage projects.*—Where lands are offered as security for a loan which are subject to a fixed annual charge for the cost of a drainage project covering a given number of years, the existence of such a charge may be considered similar to a municipal or school district tax, which does not prevent the making of a loan on such land, but the existence of the charge must be taken into account in appraising the value of the land.

4. *On unimproved lands.*—It is not necessary that all the land included in a mortgage to a Federal land bank be under cultivation. One of the purposes for which money may be borrowed is to prepare land for cultivation; a reasonable amount of pasture land in connection with a farm is desirable, and such pasture land, or land to be put under cultivation, may be appraised in connection with the land under cultivation at its actual value and serve as security to an amount equal to 50 per cent of such appraisement.

5. *On homestead lands.*—Where a homestead entryman on Government homestead has in good faith occupied the land for the requisite period and made final proof by virtue of such settlement, his land-office receipt may be accepted as evidence of basic title for the purpose of a loan under the Federal farm loan system.

Where homestead entrymen commute at the end of 14 months and pay for their land, the board will insist upon patent before a loan will be granted.

6. *Total of loans on more than one tract.*—A farmer may become a member of two or more associations if he has land lying within the territory of the said associations. Such a member may borrow on any number of pieces of property on first mortgage, but the total amount of his loans



may not exceed \$10,000, the maximum fixed by the farm loan act.

7. *By partners.*—Partners in operating a farm may borrow if one or more are farmers and are engaged in the cultivation of the land mortgaged. But partners must join severally in executing the mortgage on the land, and all should give one the authority to represent the others in the farm loan association. Only one member of the partnership can become a member of the association.

8. *For the purchase of additional land.*—Where a mortgage is given on land which the applicant owns for the purpose of purchasing other land, it is not legally necessary that the land to be purchased be included in the mortgage or be contiguous to the mortgaged land, but it must be sufficiently close to the borrower's home to admit of proper supervision, and must be purchased for personal agricultural use and not for speculation or for rental.

9. *Loan in anticipation of improvements.*—Loans may be made for the erection of permanent insurable improvements, or for clearing, draining, and other kindred improvements, and the enhanced value of the farm by reason of such improvements may be taken into consideration in making the appraisal in the first instance, but where this is done, extraordinary care must be exercised, and the bank should be absolutely sure—

(1) As to the amount the proposed improvements will add to the value of the land;

(2) That the sum borrowed is entirely sufficient to make the proposed improvements; and

(3) That no money is paid out on account of such improvements until all possibility of liens for labor, material, or other construction charges is eliminated, either by the lapse of time or by a bond against liens, by a waiver of the right to lien, or whatever other form may be provided by State laws.

10. *Loans on one tract to improve another tract.*—Loans may be made upon one tract of land for the purpose of making improvements upon another tract owned by the borrower; but such loans should not be regarded with favor, and should not be made at all unless both tracts of land are under common management and are situated in such proximity to each other as to constitute practically one operative agricultural unit.

11. *Loans on farms divided by county or State lines.*—Where a farm is divided by a State as well as a county line, if the borrower wishes to make loans on lands on both sides of the line, he must make separate loans and join separate associations, whether the lands are contiguous or not.

12. *No loans on worthless buildings.*—In making his recommendations for loans a Government appraiser is fully justified in refusing to consider, as a basis for a loan, buildings which are so run down that no reputable insurance company will write policies of insurance thereon. Where buildings are practically worthless, even though they may be carrying a small insurance in some insurance company, the appraiser should not consider them as part security for a loan because at any time after the loan is made the policy is likely to be canceled.

13. *Loans to husband and wife.*—Husband and wife owning lands in severalty may each borrow on their respective lands, the limit to each being \$10,000.

14. *Eligibility of applicant for a loan.*—The question of the eligibility of a farm owner whose land is being cultivated by some one else depends upon whether the contract is one of tenancy or hire. If the relation between the landowner and cultivator is one of landlord and tenant, then the owner may not borrow. If it is one of master and servant, he may.

15. *Loans to actual farmers.*—The board believes that Congress intended loans under the farm loan act should be confined to farmers who were "actually engaged or soon to become engaged in the cultivation of the land mortgaged," and rules:

(1) That in determining the question of whether or not an applicant is a farmer the test shall be: Is farming his principal vocation and is his principal income derived from agriculture?

(2) In determining the question of whether or not the applicant is actually engaged in the cultivation of the land mortgaged, it shall be held that he is if he cultivates the land with his own or hired labor.

#### MORTGAGED LANDS.

1. *Partial release.*—If an owner of a large tract of land borrows under the Federal farm loan system, a partial release may be properly made at any time where justice to the borrower demands and where the unreleased portion of the security is ample. This release may be procured within or after five years from the date of his loan. Subdivision 2 of section 12 of the farm loan act provides that such amounts are to be applied on the principal "as will extinguish the debt within an agreed period, not less than 5 years nor more than 40 years." This subdivision also provides that on any regular installment date "after five years from the date upon which a loan is made, additional payments or the payment of the entire principal may be made" by the borrower.

The above means that the original debt must subsist for a period of five years, less the regular installment payments, unless increased by reappraisement, but that the security for the same may be altered within said period so long as it remains ample.

2. *Method of executing partial releases.*—The following method of executing partial releases of mortgaged lands has been approved by the Farm Loan Board:

(1) As soon as any partial release is approved by the executive committee of a Federal or joint stock land bank, the note and mortgage securing such loan should be immediately withdrawn from the registrar.

(2) When approved mortgages or Government securities are not available, the registrar may temporarily approve farm mortgages which he deems satisfactory on any substitution assignment made to cover any withdrawals on account of partial or total payment.

(3) If the security has not been substantially affected, the executive committee should make written statement to that effect, one copy of which should be filed with the loan papers in the case and another sent to the Appraisal Division of the Farm Loan Bureau, after which such security will again be eligible for assignment to the registrar.

(4) If partial release desired would in the opinion of the executive committee substantially reduce the security, new application and reappraisal must be required, in which case all papers should be submitted to the Appraisal Division of the Farm Loan Bureau for approval, the same as if it were an original loan. After approval by the Appraisal Division, the loan may again be pledged with the registrar as collateral for bonds issued.

(5) The board of directors of each association should adopt appropriate resolutions approving on behalf of the association all partial releases granted by the banks on security which they have previously indorsed. This action is necessary in order that the guarantee of the association may not be waived.

(6) Each land bank should keep a register of all partial releases executed and should furnish a statement to the association that such releases have been executed, so that the approval of the action of the bank may be ratified by the association as above provided. The register of partial releases should provide space on which notation of the association's approval should be noted.

3. *Joint mortgage.*—When a husband and wife are joint owners of the property mortgaged one should give the other power of attorney to be his or her representative in the farm loan association. When husband and wife both sign a mortgage, but one or the other is sole owner, the one in whose name the title stands is the one who is eligible to membership in the association.

4. *Depletion of security.*—Where standing timber has been taken into consideration in the appraisal of the farm and making of the loan, the removal of such timber is such a depletion of the

security as to justify foreclosure or acceptance of payment on account of the principal of the loan at any time.

5. *Loans on reappraisal.*—Where additional loans are granted on reappraisal of lands already under mortgage, a new first mortgage should be executed for the full amount.

6. *Policies of mutual fire insurance companies.*—Where mutual fire insurance companies are authorized by State law and are under State supervision, the policies of such companies, where they are complying with the State law, and their conditions and policy forms are satisfactory to the Federal land bank of the district, will be acceptable to the Federal Farm Loan Board; such policies should, however, be fully paid for when deposited with the bank.

7. *Paying off a mortgage before five years.*—While the borrower has no right to pay off his mortgage within five years from its date, the board has held that the acceptance of such payment is not prohibited to either Federal or joint stock land banks where unforeseen circumstances arise making it to the interest of the borrower to pay. Should a land bank accept such payment, it may collect such a bonus as will fully reimburse the bank for the expense of making the loan in the first instance.

#### JOINT STOCK LAND BANKS.

1. *Conditions for a charter.*—With reference to the organization, chartering, and naming of joint stock land banks the board has ruled as follows:

(1) That no charter will be granted to any joint stock land bank in the organization of which there has been any expense for promotion.

(2) That the words "Joint stock land bank" shall appear in the name of every joint stock land bank chartered under the Federal farm loan act, and that no other words shall be used in the title of any such bank, except such as are necessary to distinguish it from any other bank or banks operating in the same territory.

(3) That there is nothing in the act to prevent a director of a joint stock land bank from holding a position with another banking institution.

2. *Amortized loans by joint stock land banks.*—All loans made by joint stock land banks must be made on the amortization plan, and no mortgage made on any other plan can be accepted as a basis for any issue of farm loan bonds.

3. *Maximum loan to one borrower.*—No loan to a single borrower made by any joint stock land bank in excess of 15 per cent of its capital and surplus will be approved as security for a bond issue, and in no case will such approval be given of any loan in excess of \$50,000.

4. *Increase of capital stock.*—To increase the capital stock of a joint stock land bank, an application by authority of its board of directors must first be submitted to the Farm Loan Board for approval of such increase. This must be followed by authority from the shareholders of said bank, two-thirds in amount approving, and by the payment of the amount of such increase in cash, both of which facts must be officially certified to the Farm Loan Board.

5. *Purposes of the loan.*—While joint stock land banks are exempted from the specific limitations imposed upon Federal land banks in reference to the purposes for which loans may be made, nevertheless the general purposes of the act are so clearly defined in the title, namely, "to provide capital for agricultural development," and this purpose is so generally understood and accepted, that the Board feels it is inconsistent with the purposes of the act and sound public policy that loans should be made by joint stock land banks, except for the purposes enumerated in the act, or other purposes related to agricultural development. Joint stock land banks are, therefore, requested to confine their loans to such purposes, and are advised that the Board can not approve loans which are made for the purpose of speculation or for other purposes entirely foreign to agricultural production.

6. *Commissions.*—It is proper for a joint stock land bank to pay a reasonable commission to its agents who procure applications for it, but it is

a violation of the spirit and the letter of the law for joint stock land banks or their agents to charge a borrower any commission, fee, or bonus where the loan is made at the maximum rate of 6 per cent, except the authorized charge for appraisal and determination of title, which must not exceed the actual cost of such services. Joint stock land banks will be held by the Board responsible for a rigid observance of this provision of the law.

#### BONDS AND BOND ISSUES.

1. *Rejected securities.*—Any securities which may from time to time be deposited with any farm loan registrar as collateral security for a proposed issue of farm loan bonds and be rejected by this board shall be by him reassigned to the institution depositing the same upon receipt of notice from this board of such rejection.

2. *Acknowledgments of transfers of bonds.*—Acknowledgments of transfers of registered farm loan bonds may be taken by any person authorized to take acknowledgments of United States Government registered bonds, or before any officer with a seal authorized under State laws to take acknowledgments of conveyances of real estate.

3. *Basis for approval of a bond issue.*—In order to have farm mortgages accepted as a basis for a bond issue, the applications for loans and appraisals of farms must conform to the following conditions:

(1) Where loans are contemplated of Federal land banks, the farm loan act requires that the property shall first be appraised by the loan committee of a farm loan association, and that the loan itself shall be guaranteed by said association. A Federal land bank, therefore, is not at liberty to make a loan in excess of the amount recommended by the loan committee of an association, unless the matter is specially called to the attention of the association and the association makes itself liable for the loan in the increased amount either by an express assumption or by an amendment of the report of the loan committee.

(2) The law forbids a loan in excess of 50 per cent of the value of the land and 20 per cent of the value of the insured improvements. Farm loan bonds issued by either Federal or joint stock land banks are sold to the public upon the assurance that these limits will not be exceeded, and for the information of bondholders this board preserves the schedule of mortgages to prove that these limits have not been exceeded. It is therefore absolutely essential that this schedule should show such valuations by a Federal appraiser of the land and the buildings, in the case of each loan, as will affirmatively demonstrate that in no case has the limit been exceeded.

(3) The law provides that the Farm Loan Board shall accept or reject applications for the issue of bonds after "such investigation and appraisal of the securities tendered as it shall deem wise." This means that, even after the loan committee, the Federal appraiser, the board of directors of a Federal or joint stock land bank, and the registrar have done their part, this board shall determine as to each mortgage whether it is or is not satisfactory security for an issue of bonds. To make this determination, the board must have not only the schedule but the original application papers, all of which must be examined to determine whether the law has been complied with in every particular at each stage of the transaction.

4. *Government bonds as temporary security.*—Government bonds tendered as temporary security for issues of farm loan bonds will hereafter be accepted at their par value when accompanied by evidence that the bank tendering the same secured them at par, as an original subscriber; otherwise they will be accepted only at their market value at the time of tender. Deficiencies now existing under this ruling must be supplied within 90 days.

#### THE REGISTRARS.

1. *Surety bond of registrar.*—The surety bond of the registrar of each district is fixed at the sum of \$10,000 and runs to the Government of



the United States and to the Federal land bank of the district, as their interests may appear. While such bond shall be forwarded to and held by the Farm Loan Board, each registrar must pay the premium on his own surety bond.

2. *Safe-keeping of securities by registrars.*—All notes and mortgages held by a registrar as collateral for farm loan bonds shall be by him deposited in some suitable vault or safe-deposit box, to which he shall at all times have access. All evidence of indebtedness, securities and funds, title to which passes by delivery, which may come into his hands, shall be kept by him in a safe-deposit box to which he shall have access only in the company of an officer or a representative, thereunto duly authorized in writing, of the bank which has pledged the same.

The rental of vault space necessary for the safe-keeping of securities in the hands of the registrars, other than those the title to which passes by delivery, shall be paid by the Federal land bank of the district, and a proportionate share of the cost of such vault space shall be borne by any joint stock land banks doing business in the district, the distribution of such cost to be made by the registrars. Each bank pledging evidences of indebtedness, securities and funds, title to which passes by delivery, shall maintain a separate deposit box for such securities in a bank or trust company designated by the registrar, rental of which is to be paid by the bank pledging the same.

### Federal Farm Loan Bonds

Bonds which are the direct obligation of not only the Federal land bank which issues them, but also of the other eleven banks of the system. They are joint obligations of the entire twelve land banks, and are also known as Federal Land Bank bonds. Their security consists of mortgages on farm lands, carefully selected according to reliable and uniform standards prescribed by the Farm Loan Act and the Regulations of the Federal Farm Loan Board. These mortgages pledged as security are in turn secured by land at least double, or permanent insured improvements equal to five times, the value of the loan; by the resources and double liability of the local national farm loan association indorsing the loan; by the resources of the land bank of issue; and by the capital and reserves of the other eleven land banks in the system. These bonds cannot be issued in an amount to exceed twenty times the issuing bank's paid-up capital.

It has been held by a decision of the U. S. Supreme Court that these bonds are instrumentalities of the Government, and are exempt from Federal, State, municipal and local taxation. They are legal investments for such trust funds as come under Federal jurisdiction, and are acceptable by the United States Treasury as security for Government deposits including postal savings funds. They are also eligible for investment by savings banks in thirty-seven states.

Federal Farm Loan bonds are available in denominations of 40, \$100, 500, \$1,000, \$5,-

000 and \$10,000. They are issued with a twenty year maturity with the redemption privilege at five years after date of issue for issues outstanding prior to May 1, 1921, and ten years after date of issue for issues after May 1, 1921. They are issued in coupon and registered forms and are interchangeable. The semi-annual interest coupons are payable at any Federal Land bank or Federal Reserve bank, but the principal is payable only at the Land bank of issue. The legal maximum rate for these bonds is 5 per cent. Some of the outstanding issues bear 5 per cent. and others 4½ per cent.

On October 1, 1921, there were \$373,790,-500 of these bonds outstanding, about half being held by the Treasury Department and the other half held by National banks, estates, and private investors.

These bonds are not to be confused with *Joint-Stock Land Bank Bonds* (q. v.). (See Federal Farm Loan System.)

### Federal Farm Loan Districts

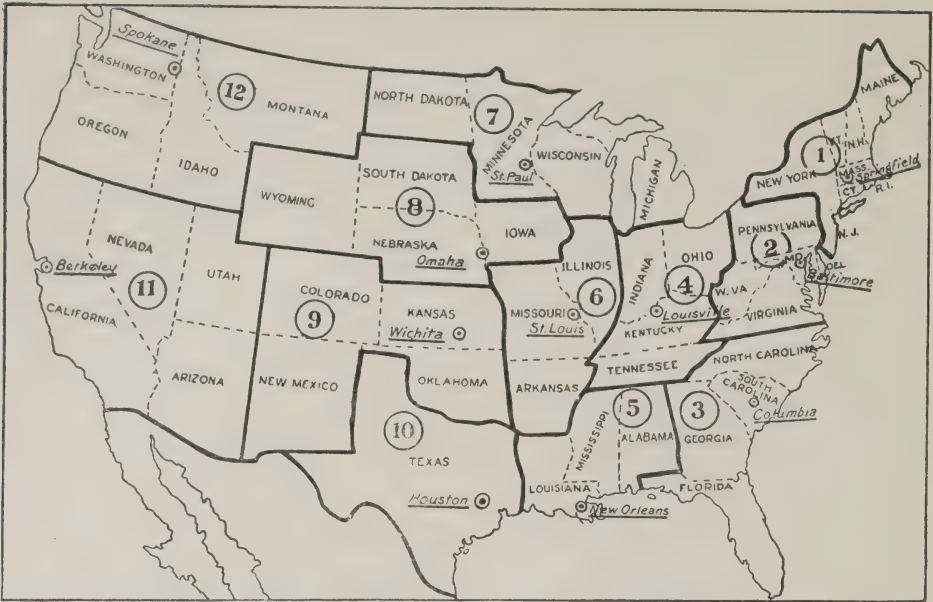
The twelve districts into which the continental United States is divided and in which the operations of each of the twelve Federal Land banks are confined. The Federal Farm Loan Board determined the boundaries of these districts, and in so doing, considered the character and development of the states entering into each district. The following factors were considered: total land area, area of land and farms, area of improved land and farms, number of farms mortgaged at that time, amount of outstanding mortgage indebtedness, value of farm lands and buildings, gross value of farm products, total population and total rural population. See map.

### Federal Farm Loan System

A system of farm mortgage banking, organized under Government supervision, created by the *Federal Farm Loan Act* (q. v.) approved July 17, 1916. The system was instituted to furnish a mechanism to provide long-term credits to farmers, and to obtain an adequate supply of capital to finance these credits through the issue of bonds secured by well selected farm mortgages. Before the passage of this Act, such a system was not provided by the Federal or State governments.

The general administration of the system is under the control of the Federal Farm Loan Bureau of the Treasury Department at Washington, which, in turn, is supervised by the *Federal Farm Loan Board* (q. v.). The important details of supervision are covered





MAP SHOWING THE TWELVE FEDERAL FARM LOAN DISTRICTS

in the *Federal Farm Loan Board Rulings and Regulations* (q. v.).

Two separate schemes of rural credits, both under the jurisdiction of the Federal Farm Loan Board, are contemplated by the Federal Farm Loan Act, *viz.*: (1) Federal land bank system, and (2) joint-stock land bank system. The Federal land bank system operates through (a) twelve Federal land banks, (b) national farm loan associations, and (c) agencies. The joint-stock land bank system operates through the joint-stock land banks, the number of which is not limited.

The Act provides that the United States shall be divided into twelve *Federal Farm Loan Districts* (q. v.), and that each district shall be served by a *Federal Land Bank* (q. v.) having a capital of not less than \$750,000.

In the Federal land bank system, farmers obtain loans not directly through the land banks, but through *National Farm Loan Associations* (q. v.). Before obtaining a loan, the farmer-applicant must become a member of a farm loan association and subscribe to the stock of such loan association up to 5 per cent. of the amount he desires to borrow. The application for a loan must be presented on a form supplied to the loan association by the Federal Farm Loan Board. The application is then referred to the loan

committee of the association which appraises the property offered as security, and if approved, it is forwarded to the Federal land bank of the district. The latter conducts a second investigation in order to satisfy itself of the character of the prospective borrower and the value of his property. If and when the loan is granted, the funds are forwarded to the borrower from the Federal Land bank through the loan association.

No individual can borrow less than \$100 or more than \$10,000. No loan may be made for more than 50 per cent. of the value of the land mortgaged to secure it, or for more than 20 per cent. of the value of permanent insured improvements thereon. Loans may run for not less than five and not more than forty years. Every loan, moreover, must be paid off on the amortization plan whereby annual or semi-annual payments are required in an amount sufficient to meet all interest due and to cancel the principal at the maturity of the loan. The maximum rate of interest which a Federal Land bank is permitted to charge is 6 per cent., and no fees or commissions are allowed other than those authorized by the Federal Farm Loan Board.

The purposes for which loans may be made under this Act are restricted to the following: (1) to provide for the purchase of land for agricultural uses, (2) to provide

for the purchase of equipment, fertilizers and live stock necessary for the proper and reasonable operation of the mortgaged farm, (3) to provide buildings and for the improvement of farm lands, and (4) to liquidate indebtedness of the owner of the land mortgaged incurred for agricultural purposes.

*Federal Farm Loan Bonds* (q. v.) may be issued by a Federal land bank after it has loaned \$50,000 on first mortgages with permission of the Farm Loan Board. These bonds are secured dollar for dollar by mortgages which it holds, and the proceeds may be used to lend on other mortgages.

The joint-stock land bank system is independent of the Federal land bank system. The shares are held by natural persons, and the Government does not grant any financial assistance. The minimum capital is \$250,000. In general, the powers of these banks are identical with the Federal land banks with the following differences: (1) loans are made directly to borrowers on farm mortgage security; (2) loans are not restricted to the purposes specified in the case of Federal land banks; and (3) bond issues are limited to fifteen times the combined capital stock and surplus. The capital stock of these banks is not exempted from taxation. (See Joint-Stock Land Banks.)

The benefits of the Federal Farm Loan System may be summarized as follows: (1) permits long-term agricultural credits at comparatively low rates of interest, and with easy terms of repayment; (2) investors in bonds of Federal land banks and joint-stock land banks have high-grade, secured, and tax-exempt interest-bearing securities, which are instrumentalities of the Government, and issued under the supervision of the Federal Farm Loan Board; (3) increased credit facilities granted to the farmer permit him to procure equipment, implements, and supplies by cash payments, thus working to the advantage of country merchants, whose business is increased and cash turnover is quickened; (4) both farmers and country merchants are made more prosperous through increased agricultural efficiency; (5) tends to increase deposits of country banks; and (6) tends to lower the price of agricultural products to the ultimate consumers. (See Amortization Loans.)

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#### Federal Intermediate Credit Bank

See Intermediate Credit Banks, Farm Credits Act.

#### Federal Land Bank

One of the twelve land banks, also known as farm loan banks, created under the Federal Farm Loan Act, and operating in one of the twelve *Federal Farm Loan Districts* (q. v.). They are located in the following cities:

- 1st District, Springfield, Mass.
- 2nd District, Baltimore, Md.
- 3rd District, Columbia, S. C.
- 4th District, Louisville, Ky.
- 5th District, New Orleans, La.
- 6th District, St. Louis, Mo.
- 7th District, St. Paul, Minn.
- 8th District, Omaha, Nebr.
- 9th District, Wichita, Kans.
- 10th District, Houston, Tex.
- 11th District, Berkeley, Cal.
- 12th District, Spokane, Wash.

In determining the location of each Federal Land Bank, the Federal Farm Loan Board considered the following factors: (1) a reasonable approximation to the geographical center of the district; (2) prompt and efficient train service; (3) climatic conditions that would not impair the efficiency of the force; and (4) congenial environment.

Each Federal Land bank is managed by a board of directors consisting of nine members, six local and three district. The local directors are designated by and are representative of national farm loan associations. The district directors are appointed by the Federal Farm Loan Board. The minimum capital of a Land bank is \$750,000, divided into shares of \$5 each. These may be subscribed for by any individual, firm, corporation, or by the government of any state or of the United States. The stock subscribed by the United States does not receive dividends. The Land banks may establish branches within the land bank district with the approval of the Federal Farm Loan Board. (See Federal Farm Loan System.)

#### Federal Land Bank Bonds

See Federal Farm Loan Bonds.



### Federal Land Bank Districts

See Federal Farm Loan Districts.

### Federal Land Bank System

See Federal Farm Loan System.

### Federal Reserve Act

The act which created the *Federal Reserve System* (q. v.), approved December 23, 1913. The following is the text of the act, as amended Aug. 4, 1914 (38 Stat., 682, Chap. 225); Aug. 15, 1914 (38 Stat., 691, Chap. 252); Mar. 3, 1915 (38 Stat., 958, Chap. 93); Sept. 7, 1916 (39 Stat., 752, Chap. 461); June 21, 1917 (40 Stat., 232, Chap. 32); Sept. 26, 1918; Mar. 3, 1919; Sept. 17, 1919; Dec. 24, 1919; Apr. 13, 1920; Mar. 4, 1923.

An Act To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the short title of this Act shall be the "Federal Reserve Act."

Wherever the word "bank" is used in this Act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to.

The terms "national bank" and "national banking association" used in this Act shall be held to be synonymous and interchangeable. The term "member bank" shall be held to mean any national bank, State bank, or bank or trust company which has become a member of one of the reserve banks created by this Act. The term "board" shall be held to mean Federal Reserve Board; the term "district" shall be held to mean Federal reserve district; the term "reserve bank" shall be held to mean Federal reserve bank.

#### FEDERAL RESERVE DISTRICTS.

Sec. 2. As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, acting as "The Reserve Bank Organization Committee," shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized: *Provided*, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all. Such districts shall be known as Federal reserve districts and may be designated by number. A majority of the organization committee shall constitute a quorum with the authority to act.

Said organization committee shall be authorized to employ counsel and expert aid, to take testimony, to send for persons and papers, to administer oaths, and to make such investigation as may be deemed necessary by the said committee in determining the reserve districts and in designating the cities within such districts where such Federal reserve banks shall be severally located. The said committee shall supervise the organization in each of the cities designated of a Fed-

eral reserve bank, which shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago."

Under regulations to be prescribed by the organization committee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this Act, its acceptance of the terms and provisions hereof. When the organization committee shall have designated the cities in which Federal reserve banks are to be organized, and fixed the geographical limits of the Federal reserve districts, every national banking association within that district shall be required within thirty days after notice from the organization committee, to subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up capital stock and surplus of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Federal Reserve Board, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Federal Reserve Board, said payments to be in gold or gold certificates.

The shareholders of every Federal reserve bank shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of their subscriptions to such stock at the par value thereof in addition to the amount subscribed, whether such subscriptions have been paid up in whole or in part, under the provisions of this Act.

Any national bank failing to signify its acceptance of the terms of this Act within the sixty days aforesaid, shall cease to act as a reserve agent, upon thirty days' notice, to be given within the discretion of the said organization committee or of the Federal Reserve Board.

Should any national banking association in the United States now organized fail within one year after the passage of this Act to become a member bank or fail to comply with any of the provisions of this Act applicable thereto, all of the rights, privileges, and franchises of such association granted to it under the national-bank Act, or under the provisions of this Act, shall be thereby forfeited. Any noncompliance with or violation of this Act, shall, however, be determined and adjudged by any court of the United States of competent jurisdiction in a suit brought for that purpose in the district or territory in which such bank is located, under direction of the Federal Reserve Board, by the Comptroller of the Currency in his own name before the association shall be declared dissolved. In cases of such noncompliance or violation, other than the failure to become a member bank under the provisions of this Act, every director who participated in or assented to the same shall be held liable in his personal or individual capacity for all damages which said bank, its shareholders, or any other person shall have sustained in consequence of such violation.

Such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

Should the subscriptions by banks to the stock of said Federal reserve banks or any one or more of them be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee may, under conditions and regulations to be prescribed by it, offer to public subscription at par such an amount of stock in said Federal reserve banks, or any one or more of them, as said committee shall determine, subject to the same conditions as to payment and stock liability as provided for member banks.

No individual, copartnership, or corporation, other than a member bank of its district shall be permitted to subscribe for or to hold at any



time more than \$25,000 par value of stock in any Federal reserve bank. Such stock shall be known as public stock and may be transferred on the books of the Federal reserve bank by the chairman of the board of directors of such bank.

Should the total subscriptions by banks and the public to the stock of said Federal reserve banks, or any one or more of them, be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee shall allot to the United States such an amount of said stock as said committee shall determine. Said United States stock shall be paid for at par out of any money in the Treasury not otherwise appropriated, and shall be held by the Secretary of the Treasury and disposed of for the benefit of the United States in such manner, at such times, and at such price, not less than par, as the Secretary of the Treasury shall determine.

Stock not held by member banks shall not be entitled to voting power.

The Federal Reserve Board is hereby empowered to adopt and promulgate rules and regulations governing the transfers of said stock.

No Federal reserve bank shall commence business with a subscribed capital less than \$4,000,000. The organization of reserve districts and Federal reserve cities shall not be construed as changing the present status of reserve cities and central reserve cities, except in so far as this Act changes the amount of reserves that may be carried with approved reserve agents located therein. The organization committee shall have power to appoint such assistants and incur such expenses in carrying out the provisions of this Act as it shall deem necessary, and such expenses shall be payable by the Treasurer of the United States upon voucher approved by the Secretary of the Treasury, and the sum of \$100,000, or so much thereof as may be necessary, is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, for the payment of such expenses.

#### BRANCH OFFICES.

Sec. 3. The Federal Reserve Board may permit or require any Federal reserve bank to establish branch banks within the Federal reserve district in which it is located or within the district of any Federal reserve bank which may have been suspended. Such branches, subject to such rules and regulations as the Federal Reserve Board may prescribe, shall be operated under the supervision of a board of directors to consist of not more than seven nor less than three directors, of whom a majority of one shall be appointed by the Federal reserve bank of the district, and the remaining directors of the Federal Reserve Board. Directors of branch banks shall hold office during the pleasure of the Federal Reserve Board.

#### FEDERAL RESERVE BANKS.

Sec. 4. When the organization committee shall have established Federal reserve districts as provided in section two of this Act, a certificate shall be filed with the Comptroller of the Currency showing the geographical limits of such districts and the Federal reserve city designated in each of such districts. The Comptroller of the Currency shall thereupon cause to be forwarded to each national bank located in each district, and to such other banks declared to be eligible by the organization committee which may apply therefor, an application blank in form to be approved by the organization committee, which blank shall contain a resolution to be adopted by the board of directors of each bank executing such application, authorizing a subscription to the capital stock of the Federal reserve bank organizing in that district in accordance with the provisions of this Act.

When the minimum amount of capital stock prescribed by this Act for the organization of any Federal reserve bank shall have been subscribed and allotted, the organization committee shall designate any five banks of those whose applications have been received, to execute a certificate of organization, and thereupon the banks so designated shall, under their seals, make an organiza-

tion certificate which shall specifically state the name of such Federal reserve bank, the territorial extent of the district over which the operations of such Federal reserve bank are to be carried on, the city and State in which said bank is to be located, the amount of capital stock and the number of shares into which the same is divided, the name and place of doing business of each bank executing such certificate, and of all banks which have subscribed to the capital stock of such Federal reserve bank and the number of shares subscribed by each, and the fact that the certificate is made to enable those banks executing same, and all banks which have subscribed or may thereafter subscribe to the capital stock of such Federal reserve bank, to avail themselves of the advantages of this Act.

The said organization certificate shall be acknowledged before a judge of some court of record or notary public; and shall be, together with the acknowledgment thereof, authenticated by the seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall file, record and carefully preserve the same in his office.

Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said Federal reserve bank shall become a body corporate, and as such, and in the name designated in such organization certificate, shall have power—

First. To adopt and use a corporate seal.  
Second. To have succession for a period of twenty years from its organization unless it is sooner dissolved by an Act of Congress, or unless its franchise becomes forfeited by some violation of law.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law or equity.

Fifth. To appoint by its board of directors such officers and employees as are not otherwise provided for in this Act, to define their duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

Sixth. To prescribe by its board of directors, by-laws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this Act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act.

Eighth.\* Upon deposit with the Treasurer of the United States of any bonds of the United States in the manner provided by existing law relating to national banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law as relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the capital stock of such Federal reserve bank.

But no Federal reserve bank shall transact any business except such as is incidental and necessarily preliminary to its organization until it has been authorized by the Comptroller of the Currency to commence business under the provisions of this Act.

Every Federal reserve bank shall be conducted under the supervision and control of a board of directors.

The board of directors shall perform the duties usually appertaining to the office of directors of

\* See section 18. Also sec. 5 of act approved Apr. 23, 1918, appendix, p. 73, authorizing issuance of Federal Reserve Bank notes in any denominations (including \$1 and \$2) against security of United States certificates of indebtedness, or of United States one-year gold notes.

banking associations and all such duties as are prescribed by law.

Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks.

Such board of directors shall be selected as hereinafter specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen by and be representative of the stock-holding banks.

Class B shall consist of three members, who at the time of their election shall be actively engaged in their district in commerce, agriculture or some other industrial pursuit.

Class C shall consist of three members who shall be designated by the Federal Reserve Board. When the necessary subscriptions to the capital stock have been obtained for the organization of any Federal reserve bank, the Federal Reserve Board shall appoint the class C directors and shall designate one of such directors as chairman of the board to be selected. Pending the designation of such chairman, the organization committee shall exercise the powers and duties appertaining to the office of chairman in the organization of such Federal reserve bank.

No Senator or Representative in Congress shall be a member of the Federal Reserve Board or an officer or a director of a Federal reserve bank.

No director of class B shall be an officer, director, or employee of any bank.

No director of class C shall be an officer, director, employee, or stockholder of any bank.

Directors of class A and class B shall be chosen in the following manner:

The Federal Reserve Board shall classify the member banks of the district into three general groups or divisions, designating each group by number. Each group shall consist as nearly as may be of banks of similar capitalization. Each member bank shall be permitted to nominate to the chairman of the board of directors of the Federal reserve bank of the district one candidate for director of class A and one candidate for director of class B. The candidates so nominated shall be listed by the chairman, indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the chairman to each member bank. Each member bank by a resolution of the board or by an amendment to its by-laws shall authorize its president, cashier, or some other officer to cast the vote of the member bank in the election of class A and class B directors.

Within fifteen days after receipt of the list of candidates the duly authorized officer of a member bank shall certify to the chairman his first, second, and other choices for director of class A and class B, respectively, upon a preferential ballot upon a form furnished by the chairman of the board of directors of the Federal reserve bank of the district. Each such officer shall make a cross opposite the name of the first, second, and other choices for a director of class A and for a director of class B, but shall not vote more than one choice for any one candidate. No officer or director of a member bank shall be eligible to serve as a class A director unless nominated and elected by banks which are members of the same group as the member bank of which he is an officer or director.

Any person who is an officer or director of more than one member bank shall not be eligible for nomination as a class A director except by banks in the same group as the bank having the largest aggregate resources of any of those of which such person is an officer or director.

Any candidate having a majority of all votes cast in the column of first choice shall be declared elected. If no candidate have a majority of all the votes in the first column, then there

shall be added together the votes cast by the electors for such candidates in the second column and the votes cast for the several candidates in the first column. If any candidate then have a majority of the electors voting, by adding together the first and second choices, he shall be declared elected. If no candidate have a majority of electors voting when the first and second choices shall have been added, then the votes cast in the third column for other choices shall be added together in like manner, and the candidate then having the highest number of votes shall be declared elected. An immediate report of election shall be declared.

Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank and as "Federal reserve agent." He shall be a person of tested banking experience, and in addition to his duties as chairman of the board of directors of the Federal reserve bank he shall be required to maintain, under regulations to be established by the Federal Reserve Board, a local office of said board on the premises of the Federal reserve bank. He shall make regular reports to the Federal Reserve Board and shall act as its official representative for the performance of the functions conferred upon it by this act. He shall receive an annual compensation to be fixed by the Federal Reserve Board and paid monthly by the Federal reserve bank to which he is designated. One of the directors of class C shall be appointed by the Federal Reserve Board as deputy chairman to exercise the powers of the chairman of the board when necessary. In case of the absence of the chairman and deputy chairman, the third class C director shall preside at meetings of the board.

Subject to the approval of the Federal Reserve Board the Federal reserve agent shall appoint one or more assistants. Such assistants, who shall be persons of tested banking experience, shall assist the Federal reserve agent in the performance of his duties and shall also have power to act in his name and stead during his absence or disability. The Federal Reserve Board shall require such bonds of the assistant Federal reserve agents as it may deem necessary for the protection of the United States. Assistants to the Federal reserve agent shall receive an annual compensation, to be fixed and paid in the same manner as that of the Federal reserve agent.

Directors of Federal reserve banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, which amount shall be paid by the respective Federal reserve banks. Any compensation that may be provided by boards of directors of Federal reserve banks for directors, officers or employees shall be subject to the approval of the Federal Reserve Board.

The Reserve Bank Organization Committee may, in organizing Federal reserve banks, call such meetings of bank directors in the several districts as may be necessary to carry out the purposes of this Act, and may exercise the functions herein conferred upon the chairman of the board of directors of each Federal reserve bank pending the complete organization of such bank.

At the first meeting of the full board of directors of each Federal reserve bank, it shall be the duty of the directors of classes A, B and C, respectively, to designate one of the members of each class whose term of office shall expire in one year from the first of January nearest to date of such meeting, one whose term of office shall expire at the end of two years from said date, and one whose term of office shall expire at the end of three years from said date. Thereafter every director of a Federal reserve bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the several classes of directors of Federal reserve banks may be filled in the manner provided for the original selection of such directors, such ap-



pointees to hold office for the unexpired terms of their predecessors.

#### STOCK ISSUES; INCREASE AND DECREASE OF CAPITAL.

Sec. 5. The capital stock of each Federal reserve bank shall be divided into shares of \$100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to six per cent of the said increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Federal Reserve Board. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last dividend. When the capital stock of any Federal reserve bank shall have been increased either on account of the increase of capital stock of member banks or on account of the increase in the number of member banks, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid. When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal reserve bank, and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal reserve bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal reserve bank.

Sec. 6. If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank. Whenever the capital stock of a Federal reserve bank is reduced, either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of such bank, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.

#### DIVISION OF EARNINGS.

Sec. 7. After all necessary expenses of a Federal reserve bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, the net earnings shall be paid to the United States as a franchise tax except that the whole of such net earnings, including those for the year ending December thirty-first, nineteen hundred and eighteen, shall be paid into a surplus fund until it shall amount to one hundred per centum of the subscribed capital stock of such bank, and that thereafter ten per centum of such net earnings shall be paid into the surplus.

The net earnings derived by the United States from Federal reserve banks shall, in the discretion

of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury. Should a Federal reserve bank be dissolved or go into liquidation, any surplus remaining, after the payment of all debts, dividend requirements as hereinbefore provided, and the par value of the stock, shall be paid to and become the property of the United States and shall be similarly applied.

Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom shall be exempt from Federal, State, and local taxation, except taxes upon real estate.

Sec. 8. Section fifty-one hundred and fifty-four, United States Revised Statutes, is hereby amended to read as follows:

Any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency be converted into a national banking association, with any name approved by the Comptroller of the Currency:

*Provided, however,* That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of fifty-one per centum of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a national association. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the association until others are elected or appointed in accordance with the provisions of the statutes of the United States. When the Comptroller has given to such bank or banking association a certificate that the provisions of this Act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by the Federal Reserve Act and by the national banking Act for associations originally organized as national banking associations.

#### STATE BANKS AS MEMBERS.

Sec. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, desiring to become a member of the Federal Reserve System, may make application to the Federal Reserve Board, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. The Federal Reserve Board, subject to such conditions as it may prescribe, may permit the applying bank to become a stockholder of such Federal reserve bank.

In acting upon such applications the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of this act.

Whenever the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district its stock subscription shall be payable on call of the Federal



Reserve Board, and stock issued to it shall be held subject to the provisions of this act.

All banks admitted to membership under authority of this section shall be required to comply with the reserve and capital requirements of this act and to conform to those provisions of law imposed on national banks which prohibit such banks from lending on or purchasing their own stock, which relate to the withdrawal or impairment of their capital stock, and which relates to the payment of unearned dividends. Such banks and the officers, agents, and employees thereof shall also be subject to the provisions of and to the penalties prescribed by section fifty-two hundred and nine of the Revised Statutes and shall be required to make reports of condition and of the payment of dividends to the Federal reserve bank of which they become a member. Not less than three of such reports shall be made annually on call of the Federal reserve bank on dates to be fixed by the Federal Reserve Board. Failure to make such reports within ten days after the date they are called for shall subject the offending bank to a penalty of \$100 a day for each day that it fails to transmit such report; such penalty to be collected by the Federal reserve bank by suit or otherwise.

As a condition of membership such banks shall likewise be subject to examinations made by direction of the Federal Reserve Board or of the Federal reserve bank by examiners selected or approved by the Federal Reserve Board.

Whenever the directors of the Federal reserve bank shall approve the examinations made by the State authorities, such examinations and the reports thereof may be accepted in lieu of examinations made by examiners selected or approved by the Federal Reserve Board: *Provided, however,* That when it deems it necessary the board may order special examinations by examiners of its own selection and shall in all cases approve the form of the report. The expenses of all examinations, other than those made by State authorities shall be assessed against and paid by the banks examined.

If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board made pursuant thereto, it shall be within the power of the board after hearing to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

Any State bank or trust company desiring to withdraw from membership in a Federal reserve bank may do so, after six months' written notice shall have been filed with the Federal Reserve Board, upon the surrender and cancellation of all of its holdings of capital stock in the Federal reserve bank: *Provided, however,* That no Federal reserve bank shall, except under express authority of the Federal Reserve Board, cancel within the same calendar year more than twenty-five per centum of its capital stock for the purpose of effecting voluntary withdrawals during that year. All such applications shall be dealt with in the order in which they are filed with the board. Whenever a member bank shall surrender its stock holdings in a Federal reserve bank, or shall be ordered to do so by the Federal Reserve Board, under authority of law, all of its rights and privileges as a member bank shall thereupon cease and determine, and after due provision has been made for any indebtedness due or to become due to the Federal reserve bank it shall be entitled to a refund of its cash paid subscription with interest at the rate of one-half of one per centum per month from date of last dividend, if earned, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to repayment of deposits and of any other balance due from the Federal reserve bank.

No applying bank shall be admitted to membership in a Federal reserve bank unless (a) it possesses a paid-up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the pro-

visions of the national bank act, (b) it possesses a paid-up, unimpaired capital of at least 60 per centum of the amount sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the National Bank Act and, under penalty of loss of membership complies with rules and regulations which the Federal Reserve Board shall prescribe fixing the time within which and the method by which the unimpaired capital of such bank shall be increased out of net income to equal the capital which would have been required if such bank had been admitted to membership under the provisions of clause (a) of this paragraph: *Provided,* That every such rule or regulation shall require the applying bank to set aside annually not less than 20 per centum of its net income of the preceding year as a fund exclusively applicable to such capital increase.

Banks becoming members of the Federal Reserve System under authority of this section shall be subject to the provisions of this section and to those of this act which relate specifically to member banks, but shall not be subject to examination under the provisions of the first two paragraphs of section fifty-two hundred and forty of the Revised Statutes as amended by section twenty-one of this act.\* Subject to the provisions of this act and to the regulations of the board made pursuant thereto, any bank becoming a member of the Federal Reserve System shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the State in which it was created, and shall be entitled to all privileges of member banks: *Provided, however,* That no Federal reserve bank shall be permitted to discount for any State bank or trust company notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than ten per centum of the capital and surplus of such State bank or trust company, but the discount of bills of exchange drawn against actually existing value and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as borrowed money within the meaning of this section.† The Federal reserve bank, as a condition of the discount of notes, drafts, and bills of exchange for such State bank or trust company, shall require a certificate or guaranty to the effect that the borrower is not liable to such bank in excess of the amount provided by this section, and will not be permitted to become liable in excess of this amount while such notes, drafts, or bills of exchange are under discount with the Federal reserve bank.

It shall be unlawful for any officer, clerk, or agent of any bank admitted to membership under authority of this section to certify any check drawn upon such bank unless the person or company drawing the check has on deposit therewith at the time such check is certified an amount of money equal to the amount specified in such check. Any check so certified by duly authorized officers shall be a good and valid obligation against such bank, but the act of any such officer, clerk, or agent in violation of this section may subject such bank to a forfeiture of its membership in the Federal Reserve System upon hearing by the Federal Reserve Board.‡

#### FEDERAL RESERVE BOARD.

Sec. 10. A Federal Reserve Board is hereby created which shall consist of seven members,§ including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members ex officio, and five members || appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting

\* Amending section 21 of this act.

† Amended by section 11 (m), as amended March 3, 1919. See post. p. 25.

‡ See section 5208, Revised Statutes, as amended by act of Sept. 26, 1918, for penalty for false certification of checks by officers of Federal Reserve Banks and national banks.

§ Now eight members.

|| Now six members.

the five appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the different commercial, industrial and geographical divisions of the country. The five members of the Federal Reserve Board appointed by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of \$12,000, payable monthly together with actual necessary traveling expenses, and the Comptroller of the Currency, as ex officio member of the Federal Reserve Board, shall, in addition to the salary now paid him as Comptroller of the Currency, receive the sum of \$7,000 annually for his services as a member of said board.

The Secretary of the Treasury and the Comptroller of the Currency shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank. The appointive members of the Federal Reserve Board shall be ineligible during the time they are in office and for two years thereafter to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. Of the five members thus appointed by the President at least two shall be persons experienced in banking or finance. One shall be designated by the President to serve for two, one for four, one for six, one for eight, and one for ten years, and thereafter each member so appointed shall serve for a term of ten years unless sooner removed for cause by the President. Of the five persons thus appointed, one shall be designated by the President as governor and one as vice governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be the active executive officer. The Secretary of the Treasury may assign offices in the Department of the Treasury for the use of the Federal Reserve Board. Each member of the Federal Reserve Board shall within fifteen days after notice of appointment make and subscribe to the oath of office.

The Federal Reserve Board shall have power to levy semi-annually upon the Federal reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year.

The first meeting of the Federal Reserve Board shall be held in Washington, District of Columbia, as soon as may be after the passage of this Act, at a date to be fixed by the Reserve Bank Organization Committee. The Secretary of the Treasury shall be ex officio chairman of the Federal Reserve Board. No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, or Federal reserve bank nor hold stock in any bank, banking institution, or trust company; and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement. Whenever a vacancy shall occur, other than by expiration of term, among the five members of the Federal Reserve Board appointed by the President, as above provided, a successor shall be appointed by the President, with the advice and consent of the Senate, to fill such vacancy, and when appointed he shall hold office for the unexpired term of the member whose place he is selected to fill.

The President shall have power to fill all vacancies that may happen on the Federal Reserve Board during the recess of the Senate, by granting commissions which shall expire with the next session of the Senate.

Nothing in this Act contained shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and bureaus under such de-

partment, and wherever any power vested by this Act in the Federal Reserve Board or the Federal reserve agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

The Federal Reserve Board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

Section three hundred and twenty-four of the Revised Statutes of the United States shall be amended so as to read as follows: There shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the issue and regulation of national currency secured by United States bonds and, under the general supervision of the Federal Reserve Board, of all Federal reserve notes, the chief officer of which bureau shall be called the Comptroller of the Currency and shall perform his duties under the general directions of the Secretary of the Treasury.

No Federal reserve bank shall have authority hereafter to enter into any contract or contracts for the erection of any branch bank building of any kind or character, or to authorize the erection of any such building, if the cost of the building proper, exclusive of the cost of the vaults, permanent equipment, furnishings, and fixtures, is in excess of \$250,000: *Provided*, That nothing herein shall apply to any building under construction prior to June 3, 1922.

Sec. 11. The Federal Reserve Board shall be authorized and empowered:

(a) To examine at its discretion the accounts, books and affairs of each Federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary. The said board shall publish once each week a statement showing the condition of each Federal reserve bank and a consolidated statement for all Federal reserve banks. Such statements shall show in detail the assets and liabilities of the Federal reserve banks, single and combined, and shall furnish full information regarding the character of the money held as reserve and the amount, nature and maturities of the paper and other investments owned or held by Federal reserve banks.

(b) To permit, or, on the affirmative vote of at least five members of the Reserve Board to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.

(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirements specified in this Act: *Provided*, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified: *And provided further*, That when the gold reserve held against Federal reserve notes falls below forty per centum, the Federal Reserve Board shall establish a graduated tax of not more than one per centum per annum upon such deficiency until the reserves fall to thirty-two and one-half per centum, and when said reserve falls below thirty-two and one-half per centum, a tax at the rate increasingly of not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below thirty-two and one-half per centum. The tax shall be paid by the reserve bank, but the reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board.

(d) To supervise and regulate through the bureau under the charge of the Comptroller of the Currency the issue and retirement of Federal reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the Comptroller to the Federal reserve agents applying therefor.

(e) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are sub-



ject to the reserve requirements set forth in section twenty of this Act; or to reclassify existing reserve and central reserve cities or to terminate their designation as such.

(f) To suspend or remove any officer or director of any Federal reserve bank, the cause of such removal to be forthwith communicated in writing by the Federal Reserve Board to the removed officer or director and to said bank.

(g) To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal reserve banks.

(h) To suspend, for the violation of any of the provisions of this Act, the operations of any Federal reserve bank, to take possession thereof, administer the same during the period of suspension, and, when deemed advisable, to liquidate or reorganize such bank.

(i) To require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said board effectively to perform the same.

(j) To exercise general supervision over said Federal reserve banks.

(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.

Whenever the laws of such State authorize or permit the exercise of any or all of the foregoing powers by State banks, trust companies, or other corporations which compete with national banks, the granting to and the exercise of such powers by national banks shall not be deemed to be in contravention of State or local law within the meaning of this Act.

National banks exercising any or all of the powers enumerated in this subsection shall segregate all assets held in any fiduciary capacity from the general assets of the bank and shall keep a separate set of books and records showing in proper detail all transactions engaged in under authority of this subsection. Such books and records shall be open to inspection by the State authorities to the same extent as the books and records of corporations organized under State law which exercise fiduciary powers, but nothing in this Act shall be construed as authorizing the State authorities to examine the books, records, and assets of the national bank which are not held in trust under authority of this subsection.

No national bank shall receive in its trust department deposits of current funds subject to check or the deposit of checks, drafts, bills of exchange, or other items for collection or exchange purposes. Funds deposited or held in trust by the bank awaiting investment shall be carried in a separate account and shall not be used by the bank in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Federal Reserve Board.

In the event of the failure of such bank the owners of the funds held in trust for investment shall have a lien on the bonds or other securities so set apart in addition to their claim against the estate of the bank.

Whenever the laws of a State require corporations acting in a fiduciary capacity, to deposit securities with the State authorities for the protection of private or court trusts, national banks so acting shall be required to make similar deposits and securities so deposited shall be held for the protection of private or court trusts, as provided by the State law.

National banks in such cases shall not be required to execute the bond usually required of

individuals if State corporations under similar circumstances are exempt from this requirement.

National banks shall have power to execute such bond when so required by the laws of the State.

In any case in which the laws of a State require that a corporation acting as trustee, executor, administrator, or in any capacity specified in this section, shall take an oath or make an affidavit, the president, vice president, cashier, or trust officer of such national bank may take the necessary oath or execute the necessary affidavit.

It shall be unlawful for any national banking association to lend any officer, director, or employee any funds held in trust under the powers conferred by this section. Any officer, director, or employee making such loan, or to whom such loan is made, may be fined not more than \$5,000, or imprisoned not more than five years, or may be both fined and imprisoned, in the discretion of the court.

In passing upon applications for permission to exercise the powers enumerated in this subsection, the Federal Reserve Board may take into consideration the amount of capital and surplus of the applying bank, whether or not such capital and surplus is sufficient under the circumstances of the case, the needs of the community to be served, and any other facts and circumstances that seem to it proper, and may grant or refuse the application accordingly: *Provided*, That no permit shall be issued to any national banking association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies, and corporations exercising such powers.

(l) To employ such attorneys, experts, assistants, clerks, or other employees as may be deemed necessary to conduct the business of the board. All salaries and fees shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the members of said board. All such attorneys, experts, assistants, clerks and other employees shall be appointed without regard to the provisions of the Act of January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at Large, page four hundred and three), and amendments thereto, or any rule or regulation made in pursuance thereof: *Provided*, That nothing herein shall prevent the President from placing said employees in the classified service.

(m) Upon the affirmative vote of not less than five of its members, the Federal Reserve Board shall have power to permit Federal reserve banks to discount for any member bank notes, drafts, or bills of exchange bearing the signature or endorsement of any one borrower in excess of the amount permitted by section nine and section thirteen of this Act, but in no case to exceed twenty per centum of the member bank's capital and surplus: *Provided, however*, That all such notes, drafts, or bills of exchange discounted for any member bank in excess of the amount permitted under such sections shall be secured by not less than a like face amount of bonds or notes of the United States issued since April twenty-fourth, nineteen hundred and seventeen, or certificates of indebtedness of the United States; *Provided further*, That the provisions of this subsection (m) shall not be operative after October thirty-first, nineteen hundred and twenty-one.

#### FEDERAL ADVISORY COUNCIL.

Sec. 12 There is hereby created a Federal Advisory Council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive such compensation and allowances as may be fixed by his board of directors subject to the approval of the Federal Reserve Board. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal Reserve Board. The council may in addition to the meetings above provided for hold such other meetings in Washington, District of Columbia, or elsewhere as it may deem necessary, may select its own officers and adopt its own methods of pro-



cedure, and a majority of its members shall constitute a quorum for the transaction of business. Vacancies in the council shall be filled by the respective reserve banks, and members selected to fill vacancies, shall serve for the unexpired term.

The Federal Advisory Council shall have power, by itself or through its officers, (1) to confer directly with the Federal Reserve Board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system.

#### POWERS OF FEDERAL RESERVE BANKS.

Sec. 13. Any Federal reserve bank may receive from any of its member banks, and from the United States,\* deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks, and drafts, payable upon presentation, and also, for collection, maturing notes and bills; or, solely for purposes of exchange or of collection, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks upon other Federal reserve banks, and checks and drafts, payable upon presentation within its district, and maturing notes and bills payable within its district; or, solely for the purposes of exchange or of collection, may receive from any nonmember bank or trust company deposits of current funds in lawful money, national-bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills: *Provided*, Such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: *Provided, further*, That nothing in this or any other section of this act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal reserve banks.

Upon the endorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount, and the notes, drafts, and bills of exchange of factors issued as such making advances exclusively to producers of staple agricultural products in their raw state shall be eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States.† Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at

the time of discount of not more than ninety days, exclusive of days of grace.

Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, and subject to regulations and limitations to be prescribed by the Federal Reserve Board, any Federal reserve bank may discount or purchase bills of exchange payable at sight or on demand which are drawn to finance the domestic shipment of nonperishable, readily marketable staple agricultural products and are secured by bills of lading or other shipping documents conveying or securing title to such staples: *Provided*, That all such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made with reasonable promptness after the arrival of such staples at their destination: *Provided further*, That no such bill shall in any event be held by or for the account of a Federal reserve bank for a period in excess of 90 days. In discounting such bills Federal reserve banks may compute the interest to be deducted on the basis of the estimated life of each bill and adjust the discount after payment of such bills to conform to the actual life thereof.

The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.\*

Any Federal reserve bank may discount acceptances of the kinds hereinafter described, which have a maturity at the time of discount of not more than three months' sight, exclusive of days of grace, and which are indorsed by at least one member bank; *Provided*, That such acceptances if drawn for an agricultural purpose and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples may be discounted with a maturity at the time of discount of not more than six months' sight exclusive of days of grace.

Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months' sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than ten per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance; and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus: *Provided, however*, That the Federal Reserve Board, under such general regulations as it may prescribe, which shall apply to all banks alike regardless of the amount of capital stock and surplus, may authorize any member bank to accept such bills to an amount not exceeding at any time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus: *Provided further*, That the aggregate of acceptances growing out of domestic transactions shall in no event exceed fifty per centum of such capital stock and surplus.

Any Federal reserve bank may make advances to its member banks on their promissory notes for

\* Under authority of War Finance Act, approved Apr. 5, 1918, as amended by act of Mar. 3, 1919, may receive deposits from War Finance Corporation.

† Or bonds of the War Finance Corporation.

\* Amended by section 11 (m), as amended March 3, 1919.

a period not exceeding fifteen days at rates to be established by such Federal reserve banks, subject to the review and determination of the Federal Reserve Board, provided such promissory notes are secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act, or by the deposit or pledge of bonds or notes of the United States.\*

Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: "No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First. Notes of circulation.

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereon.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

Fifth. Liabilities incurred under the provisions of the Federal Reserve Act.

Sixth. Liabilities incurred under the provisions of the War Finance Corporation Act.†

Seventh. Liabilities created by the indorsement of accepted bills of exchange payable abroad actually owned by the indorsing bank and discounted at home or abroad.‡

The discount and rediscount and the purchase and sale by any Federal reserve bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board.

That in addition to the powers now vested by law in national banking associations organized under the laws of the United States any such association located and doing business in any place the population of which does not exceed five thousand inhabitants, as shown by the last preceding decennial census, may, under such rules and regulations as may be prescribed by the Comptroller of the Currency, act as the agent for any fire, life, or other insurance company authorized by the authorities of the State in which said bank is located to do business in said State, by soliciting and selling insurance and collecting premiums on policies issued by such company; and may receive for services so rendered such fees or commissions as may be agreed upon between the said association and the insurance company for which it may act as agent; and may also act as the broker or agent for others in making or procuring loans on real estate located within one hundred miles of the place in which said bank may be located, receiving for such services a reasonable fee or commission: *Provided, however,* That no such bank shall in any case guarantee either the principal or interest of any such loans or assume or guarantee the payment of any premium on insurance policies issued through its agency by its principal: *And provided further,* That the bank shall not guarantee the truth of any statement made by an assured in filing his application for insurance.

Any member bank may accept drafts or bills of exchange drawn upon it having not more than three months' sight to run, exclusive of days of grace, drawn under regulations to be prescribed by the Federal Reserve Board by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions. Such drafts or bills may be acquired by Federal reserve banks in such amounts and subject to such regulations, restric-

tions, and limitations as may be prescribed by the Federal Reserve Board: *Provided, however,* That no member bank shall accept such drafts or bills of exchange referred to in this paragraph for any one bank to an amount exceeding in the aggregate ten per centum of the paid-up and unimpaired capital and surplus of the accepting bank unless the draft or bill of exchange is accompanied by documents conveying or securing title or by some other adequate security: *Provided further,* That no member bank shall accept such drafts or bills in an amount exceeding at any time the aggregate of one-half of its paid-up and unimpaired capital and surplus.

Sec. 13a. Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may, subject to regulations and limitations to be prescribed by the Federal Reserve Board, discount notes, drafts, and bills of exchange issued or drawn for an agricultural purpose, or based upon live stock, and having a maturity, at the time of discount, exclusive of days of grace, not exceeding nine months, and such notes, drafts, and bills of exchange may be offered as collateral security for the issuance of Federal reserve notes under the provisions of section 16 of this Act: *Provided,* That notes, drafts, and bills of exchange with maturities in excess of six months shall not be eligible as a basis for the issuance of Federal reserve notes unless secured by warehouse receipts or other such negotiable documents conveying or securing title to readily marketable staple agricultural products or by chattel mortgage upon live stock which is being fattened for market.

That any Federal reserve bank may, subject to regulations and limitations to be prescribed by the Federal Reserve Board, rediscount such notes, drafts, and bills for any Federal Intermediate Credit Bank, except that no Federal reserve bank shall rediscount for a Federal Intermediate Credit Bank any such note or obligation which bears the indorsement of a nonmember State bank or trust company which is eligible for membership in the Federal reserve system, in accordance with section 9 of this Act.

Any Federal reserve bank may also buy and sell debentures and other such obligations issued by a Federal Intermediate Credit Bank or by a National Agricultural Credit Corporation, but only to the same extent as and subject to the same limitations as those upon which it may buy and sell bonds issued under Title I of the Federal Farm Loan Act.

Notes, drafts, bills of exchange or acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products shall be deemed to have been issued or drawn for an agricultural purpose, within the meaning of this section, if the proceeds thereof have been or are to be advanced by such association to any members thereof for an agricultural purpose, or have been or are to be used by such association in making payments to any members thereof on account of agricultural products delivered by such members to the association, or if such proceeds have been or are to be used by such association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product handled by such association for any of its members: *Provided,* That the express enumeration in this paragraph of certain classes of paper of cooperative marketing associations as eligible for rediscount shall not be construed as rendering ineligible any other class of paper of such associations which is now eligible for rediscount.

The Federal Reserve Board may, by regulation, limit to a percentage of the assets of a Federal reserve bank the amount of notes, drafts, acceptances, or bills having a maturity in excess of three months, but not exceeding six months, exclusive of days of grace, which may be discounted by such bank, and the amount of notes, drafts, bills, or acceptances having a maturity in excess of six months, but not exceeding nine months, which may be rediscounted by such bank.

\* Or by bonds of War Finance Corporation.

† These two subparagraphs were added to section 5202, Revised Statutes, by the War Finance Corporation Act, approved Apr. 5, 1918, and by the act of Oct. 22, 1919, respectively.



## OPEN-MARKET OPERATIONS.

Sec. 14. Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank.

Every Federal reserve bank shall have power:

(a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold;

(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board;

(c) To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined;

(d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business.

(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent or upon the order and direction of the Federal Reserve Board and under regulations to be prescribed by said board, to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange (or acceptances) arising out of actual commercial transactions which have not more than ninety days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties, and, with the consent of the Federal Reserve Board, to open and maintain banking accounts for such foreign correspondents or agencies. Whenever any such account has been opened or agency or correspondent has been appointed by a Federal reserve bank, with the consent of or under the order and direction of the Federal Reserve Board, any other Federal reserve bank may, with the consent and approval of the Federal Reserve Board, be permitted to carry on or conduct, through the Federal reserve bank opening such account or appointing such agency or correspondent, any transaction authorized by this section under rules and regulations to be prescribed by the board.

(f) To purchase and sell in the open market, either from or to domestic banks, firms, corporations, or individuals, acceptances of Federal Intermediate Credit Banks and of National Agricultural Credit Corporations, whenever the Federal Reserve Board shall declare that the public interest so requires.

## GOVERNMENT DEPOSITS.

Sec. 15.\* The moneys held in the general fund of the Treasury, except the five per centum fund for the redemption of outstanding national-bank notes and the funds provided in this Act for the redemption of Federal reserve notes may, upon

\* This section in effect amended by Appropriation Act of 1920, approved May 29, 1920.

the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States,\* and the revenues of the Government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits.

No public funds of the Philippine Islands, or of the postal savings, or any Government funds, shall be deposited in the continental United States in any bank not belonging to the system established by this Act:† *Provided, however,* That nothing in this Act shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositories.

The Federal reserve banks are hereby authorized to act as depositories for and fiscal agents of any National Agricultural Credit Corporation or Federal Intermediate Credit Bank.

## NOTE ISSUES.

Sec. 16. Federal reserve notes, to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal reserve banks through the Federal reserve agents as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in gold on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or in gold or lawful money at any Federal reserve bank.

Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section thirteen of this act, or bills of exchange indorsed by a member bank of any Federal reserve district and purchased under the provisions of section fourteen of this act, or bankers' acceptances purchased under the provisions of said section fourteen, or gold or gold certificates; but in no event shall such collateral security, whether gold, gold certificates, or eligible paper, be less than the amount of Federal reserve notes applied for.‡ The Federal reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal reserve notes to and by the Federal reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal reserve bank for additional security to protect the Federal reserve notes issued to it.

Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal reserve notes in actual circulation: *Provided, however,* That when the Federal reserve agent holds gold or gold certificates as collateral for Federal reserve notes issued to the

\* Under War Finance Corporation Act, approved Apr. 5, 1918, as amended by Act of Mar. 3, 1919, Federal Reserve Banks may also act as fiscal agents of the War Finance Corporation.

† Under Section 7 of the act approved Apr. 24, 1917, section 8 of the act approved Sept. 24, 1917, and section 8 of the act approved Apr. 4, 1918, the proceeds of sale of Liberty bonds of the first, second, and third issues may be deposited in non-member banks. The act of May 18, 1916, amending the Postal Savings Act, authorizes the deposit of postal savings funds in nonmember banks.

‡ Under section 13 of War Finance Corporation Act, approved Apr. 5, 1918, notes secured by War Finance Corporation bonds may be used to the same extent, as collateral, as notes secured by United States bonds.



bank such gold or gold certificates shall be counted as part of the gold reserve which such bank is required to maintain against its Federal reserve notes in actual circulation. Notes so paid out shall bear upon their faces a distinctive letter and serial number which shall be assigned by the Federal Reserve Board to each Federal reserve bank. Whenever Federal reserve notes issued through one Federal reserve bank shall be received by another Federal reserve bank, they shall be promptly returned for credit or redemption to the Federal reserve bank through which they were originally issued or, upon direction of such Federal reserve bank, they shall be forwarded direct to the Treasurer of the United States to be retired. No Federal reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal reserve banks through which they were originally issued, and thereupon such Federal reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal reserve notes have been redeemed by the Treasurer in gold or gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold or gold certificates, and such Federal reserve bank shall, so long as any of its Federal reserve notes remain outstanding, maintain with the Treasurer in gold an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold out of the redemption fund hereinafter provided and returned to the reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal reserve notes unfit for circulation shall be returned by the Federal reserve agents to the Comptroller of the Currency for cancellation and destruction.

The Federal Reserve Board shall require each Federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal reserve notes issued to such bank, but in no event less than five per centum of the total amount of notes issued less the amount of gold or gold certificates held by the Federal reserve agent as collateral security; but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinbefore required. The board shall have the right, acting through the Federal reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal reserve bank for Federal reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal reserve agent, supply Federal reserve notes to the banks so applying, and such bank shall be charged with the amount of notes issued to it and shall pay such rate of interest as may be established by the Federal Reserve Board or only that amount of such notes which equals the total amount of its outstanding Federal reserve notes less the amount of gold or gold certificates held by the Federal reserve agent as collateral security. Federal reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal reserve bank as may be issued under section eighteen of this act upon security of United States two per centum Government bonds, become a first and paramount lien on all the assets of such bank.

Any Federal reserve bank may at any time reduce its liability for outstanding Federal reserve notes by depositing with the Federal reserve agent its Federal reserve notes, gold, gold certificates, or lawful money of the United States. Federal reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

The Federal reserve agent shall hold such gold, gold certificates, or lawful money available ex-

clusively for exchange for the outstanding Federal reserve notes when offered by the reserve bank of which he is director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal reserve agent to transmit to the Treasurer of the United States so much of the gold held by him as collateral security for Federal reserve notes as may be required for the exclusive purpose of the redemption of such Federal reserve notes, but such gold when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the Federal reserve agent.

Any Federal reserve bank may at its discretion withdraw collateral deposited with the local Federal reserve agent for the protection of its Federal reserve notes issued to it and shall at the same time substitute therefor other collateral of equal amount with the approval of the Federal reserve agent under regulations to be prescribed by the Federal Reserve Board. Any Federal reserve bank may retire any of its Federal reserve notes by depositing them with the Federal reserve agent or with the Treasurer of the United States, and such Federal reserve bank shall thereupon be entitled to receive back the collateral deposited with the Federal reserve agent for the security of such notes. Federal reserve banks shall not be required to maintain the reserve or the redemption fund heretofore provided for against Federal reserve notes which have been retired. Federal reserve notes so deposited shall not be reissued except upon compliance with the conditions of an original issue.

All Federal reserve notes and all gold, gold certificates, and lawful money issued to or deposited with any Federal reserve agent under the provisions of the Federal reserve act shall hereafter be held for such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal reserve bank to which he is accredited. Such agent and such Federal reserve bank shall be jointly liable for the safe-keeping of such Federal reserve notes, gold, gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal reserve agent from depositing gold or gold certificates with the Federal Reserve Board, to be held by such board subject to his order, or with the Treasurer of the United States for the purposes authorized by law.

In order to furnish suitable notes for circulation as Federal reserve notes, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of \$5, \$10, \$20, \$50, \$100, \$500, \$1000, \$5000, \$10,000 as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this Act and shall bear the distinctive numbers of the several Federal reserve banks through which they are issued.

When such notes have been prepared, they shall be deposited in the Treasury, or in the sub-treasury or mint of the United States nearest the place of business of each Federal reserve bank and shall be held for the use of such bank subject to the order of the Comptroller of the Currency for their delivery, as provided by this Act.

The plates and dies to be procured by the Comptroller of the Currency for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the laws relating to the procuring of such notes, and all other expenses incidental to their issue and retirement, shall be paid by the Federal reserve banks, and the Federal Reserve Board shall include in its estimate of expenses levied against the Federal reserve banks a sufficient amount to cover the expenses herein provided for.

The examination of plates, dies, and pieces, and so forth, and regulations relating to such examina-

tion of plates, dies, and so forth, of national-bank notes provided for in section fifty-one hundred and seventy-four Revised Statutes, is hereby extended to include notes herein provided for.

Any appropriation heretofore made out of the general funds of the Treasury for engraving plates and dies, the purchase of distinctive paper, or to cover any other expense in connection with the printing of national-bank notes or notes provided for by the Act of May thirtieth, nineteen hundred and eight, and any distinctive paper that may be on hand at the time of the passage of this Act may be used in the discretion of the Secretary for the purposes of this Act, and should the appropriations heretofore made be insufficient to meet the requirements of this Act in addition to circulating notes provided for by existing law, the Secretary is hereby authorized to use so much of any funds in the Treasury not otherwise appropriated for the purpose of furnishing the notes aforesaid: *Provided, however*, That nothing in this section contained shall be construed as exempting national banks or Federal reserve banks from their liability to reimburse the United States for any expenses incurred in printing and issuing circulating notes.

Every Federal reserve bank shall receive on deposit at par from member banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank.

The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.

That the Secretary of the Treasury is hereby authorized and directed to receive deposits of gold coin or of gold certificates with the Treasurer or any assistant treasurer of the United States when tendered by any Federal reserve bank or Federal reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal reserve bank or Federal reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advices from any assistant treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Federal Reserve Board and shall be payable in gold coin or gold certificates on the order of the Federal Reserve Board to any Federal reserve bank or Federal reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal reserve bank or such Federal reserve agent: *Provided, however*, That any expense incurred in shipping gold to or from the Treasury or subtreasuries in order to make such payments, or as a result of making such payments, shall be paid by the Federal Reserve Board and assessed against the Federal reserve banks. The order used by the Federal Reserve Board in making such payments shall be signed by the governor or vice governor, or such other officers or members as the board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury.

The expenses necessarily incurred in carrying out these provisions, including the cost of the certificates or receipts issued for deposits received, and all expenses incident to the handling of such deposits shall be paid by the Federal Reserve Board and included in its assessments against the several Federal reserve banks.

Gold deposits standing to the credit of any Federal reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal reserve notes, or as a part of the reserve it is required to maintain against deposits.

Nothing in this section shall be construed as amending section six of the act of March fourteenth, nineteen hundred, as amended by the acts of March fourth, nineteen hundred and seven, March second, nineteen hundred and eleven, and June twelfth, nineteen hundred and sixteen, nor shall the provisions of this section be construed to apply to the deposits made or to the receipts or certificates issued under those acts.

Sec. 17. So much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States, and section four of the act of June twentieth, eighteen hundred and seventy-four, and section eight of the act of July twelfth, eighteen hundred and eighty-two, and of any other provisions of existing statutes as require that before any national banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of United States registered bonds, and so much of those provisions or of any other provisions of existing statutes as require any national banking association now or hereafter organized to maintain a minimum deposit of such bonds with the Treasurer is hereby repealed.

#### REFUNDING BONDS.

Sec. 18. After two years from the passage of this Act, and at any time during a period of twenty years thereafter, any member bank desiring to retire the whole or any part of its circulating notes, may file with the Treasurer of the United States an application to sell for its account, at par and accrued interest, United States bonds securing circulation to be retired.

The Treasurer shall, at the end of each quarterly period, furnish the Federal Reserve Board with a list of such applications, and the Federal Reserve Board may, in its discretion, require the Federal reserve banks to purchase such bonds from the banks whose applications have been filed with the Treasurer at least ten days before the end of any quarterly period at which the Federal Reserve Board may direct the purchase to be made: *Provided*, That Federal reserve banks shall not be permitted to purchase an amount to exceed \$25,000,000 of such bonds in any one year, and which amount shall include bonds acquired under section four of this Act by the Federal reserve bank.

*Provided further*, That the Federal Reserve Board shall allot to each Federal reserve bank such proportion of such bonds as the capital and surplus of such bank shall bear to the aggregate capital and surplus of all the Federal reserve banks.

Upon notice from the Treasurer of the amount of bonds so sold for its account, each member bank shall duly assign and transfer, in writing, such bonds to the Federal reserve bank purchasing the same, and such Federal reserve bank shall, thereupon, deposit lawful money with the Treasurer of the United States for the purchase price of such bonds, and the Treasurer shall pay to the member bank selling such bonds any balance due after deducting a sufficient sum to redeem its outstanding notes secured by such bonds, which notes shall be canceled and permanently retired when redeemed.

The Federal reserve banks purchasing such bonds shall be permitted to take out an amount of circulating notes equal to the par value of such bonds.



Upon the deposit with the Treasurer of the United States of bonds so purchased, or any bonds with the circulating privilege acquired under section four of this Act, any Federal reserve bank making such deposit in the manner provided by existing law, shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited.\* Such notes shall be the obligations of the Federal reserve bank procuring the same, and shall be in form prescribed by the Secretary of the Treasury, and to the same tenor and effect as national-bank notes now provided by law. They shall be issued and redeemed under the same terms and conditions as national-bank notes except that they shall not be limited to the amount of the capital stock of the Federal reserve bank issuing them.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary of the Treasury may issue, in exchange for United States two per centum gold bonds bearing the circulation privilege, but against which no circulation is outstanding, one-year gold notes of the United States without the circulation privilege, to an amount not to exceed one-half of the two per centum bonds so tendered for exchange, and thirty-year three per centum gold bonds without the circulation privilege for the remainder of the two per centum bonds so tendered: *Provided*, That at the time of such exchange the Federal reserve bank obtaining such one-year gold notes shall enter into an obligation with the Secretary of the Treasury binding itself to purchase from the United States for gold at the maturity of such one-year notes, an amount equal to those delivered in exchange for such bonds, if so requested by the Secretary, and at each maturity of one-year notes so purchased by such Federal reserve bank, to purchase from the United States such an amount of one-year notes as the Secretary may tender to such bank, not to exceed the amount issued to such bank in the first instance, in exchange for the two per centum United States gold bonds; said obligation to purchase at maturity such notes shall continue in force for a period not to exceed thirty years.

For the purpose of making the exchange herein provided for, the Secretary of the Treasury is authorized to issue at par Treasury notes in coupon or registered form as he may prescribe in denominations of one hundred dollars, or any multiple thereof, bearing interest at the rate of three per centum per annum, payable quarterly, such Treasury notes to be payable not more than one year from the date of their issue in gold coin of the present standard value, and to be exempt as to principal and interest from the payment of all taxes and duties of the United States except as provided by this Act, as well as from taxes in any form by or under State, municipal, or local authorities. And for the same purpose, the Secretary is authorized and empowered to issue United States gold bonds at par, bearing three per centum interest payable thirty years from date of issue, such bonds to be of the same general tenor and effect and to be issued under the same general terms and conditions as the United States three per centum bonds without the circulation privilege now issued and outstanding.

Upon application of any Federal reserve bank, approved by the Federal Reserve Board, the Secretary may issue at par such three per centum bonds in exchange for the one-year gold notes herein provided for.

#### BANK RESERVES.

Section 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which

\* Under act of Apr. 23, 1918, Federal reserve banks may issue Federal reserve bank notes in any denominations, including \$1 and \$2, against the security of United States certificates of indebtedness to the extent permitted by that act.

are subject to not less than thirty days' notice before payment, and all postal savings deposits.\*

Every bank, banking association, or trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain reserve balances with its Federal reserve bank as follows:

(a) If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than seven centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

(b) If in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits: *Provided, however*, That if located in the outlying districts of a reserve city or in territory added to such a city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Federal Reserve Board, hold and maintain the reserve balances specified in paragraph (a) hereof.

(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than thirteen per centum of the aggregate amount of its demand deposits and three per centum of its time deposits: *Provided, however*, That if located in the outlying districts of a central reserve city or in territory added to such city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Federal Reserve Board, hold and maintain the reserve balances specified in paragraphs (a) or (b) thereof.

No member bank shall keep on deposit with any State bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a non-member bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Federal Reserve Board.

The required balance carried by a member bank with a Federal reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: *Provided, however*, That no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored.

In estimating the balances required by this Act, the net difference of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which required balances with Federal reserve banks shall be determined.

National banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall in that event take stock, maintain reserves, and be subject to all the other provisions of this Act.

Sec. 20. So much of sections two and three of the Act of June twentieth, eighteen hundred and seventy-four, entitled "An Act fixing the amount of United States notes, providing for a redistribution of the national-bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful

\* Government deposits other than postal savings deposits are not subject to reserve requirements.



reserve as provided in the Act aforesaid, is hereby repealed. And from and after the passage of this Act such fund of five per centum shall in no case be counted by any national banking association as a part of its lawful reserve.

#### BANK EXAMINATIONS.

Sec. 21. Section fifty-two hundred and forty, United States Revised Statutes, is amended to read as follows:

The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank\* at least twice in each calendar year and oftener if considered necessary: *Provided, however,* That the Federal Reserve Board may authorize examination by the State authorities to be accepted in the case of State banks and trust companies and may at any time direct the holding of a special examination of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have power to make a thorough examination of all the affairs of the bank, and in doing so he shall have power to administer oaths and to examine any of the officers and agents thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency.

The Federal Reserve Board, upon the recommendation of the Comptroller of the Currency, shall fix the salaries of all bank examiners and make report thereof to Congress. The expense of the examinations herein provided for shall be assessed by the Comptroller of the Currency upon the banks examined in proportion to assets or resources held by the banks upon the dates of examination of the various banks.

In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal reserve bank may, with the approval of the Federal reserve agent or the Federal Reserve Board, provide for special examination of member banks within its district. The expense of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them. Every Federal reserve bank shall at all times furnish to the Federal Reserve Board such information as may be demanded concerning the condition of any member bank within the district of the said Federal reserve bank.

No bank shall be subject to any visitatorial powers other than such as are authorized by law, or vested in the courts of justice or such as shall be or shall have been exercised or directed by Congress, or by either House thereof or by any committee of Congress or of either House duly authorized.

The Federal Reserve Board shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of ten member banks the Federal Reserve Board shall order a special examination and report of the condition of any Federal reserve bank.

Sec. 22. (a) No member bank and no officer, director, or employee thereof shall hereafter make any loan or grant any gratuity to any bank examiner. Any bank officer, director, or employee violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned not exceeding one year or fined not more than \$5,000, or both; and may be fined a further sum equal to the money so loaned or gratuity given.

Any examiner accepting a loan or gratuity from any bank examined by him or from an officer, director, or employee thereof shall be deemed guilty of a misdemeanor and shall be imprisoned one year or fined not more than \$5,000, or both, and may be fined a further sum equal to the

money so loaned or gratuity given, and shall forever thereafter be disqualified from holding office as a national bank examiner.

(b) No national bank examiner shall perform any other service for compensation while holding such office for any bank or officer, director, or employee thereof.

No examiner, public or private, shall disclose the names of borrowers or the collateral for loans of a member bank to other than the proper officers of such bank without first having obtained the express permission in writing from the Comptroller of the Currency, or from the board of directors of such bank, except when ordered to do so by a court of competent jurisdiction, or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress, or of either House duly authorized. Any bank examiner violating the provisions of this subsection shall be imprisoned not more than one year or fined not more than \$5,000, or both.

(c) Except as herein provided, any officer, director, employee, or attorney of a member bank who stipulates for or receives or consents or agrees to receive any fee, commission, gift, or thing of value from any person, firm, or corporation, for procuring or endeavoring to procure for such person, firm, or corporation, or for any other person, firm, or corporation, any loan from or the purchase or discount of any paper, note, draft, check, or bill of exchange by such member bank shall be deemed guilty of a misdemeanor and shall be imprisoned not more than one year or fined not more than \$5,000, or both.

(d) Any member bank may contract for, or purchase from, any of its directors or from any firm of which any of its directors is a member, any securities or other property, when (and not otherwise) such purchase is made in the regular course of business upon terms not less favorable to the bank than those offered to others, or when such purchase is authorized by a majority of the board of directors not interested in the sale of such securities or property, such authority to be evidenced by the affirmative vote or written assent of such directors: *Provided, however,* That when any director, or firm of which any director is a member, acting for or on behalf of others, sells securities or other property to a member bank, the Federal Reserve Board by regulation may, in any or all cases, require a full disclosure to be made, on forms to be prescribed by it, of all commissions or other considerations received, and whenever such director or firm, acting in his or its own behalf, sells securities or other property to the bank the Federal Reserve Board by regulation, may require a full disclosure of all profit realized from such sale.

Any member bank may sell securities or other property to any of its directors, or to a firm of which any of its directors is a member, in the regular course of business on terms not more favorable to such director or firm than those offered to others, or when such sale is authorized by a majority of the board of directors of a member bank to be evidenced by their affirmative vote or written assent: *Provided, however,* That nothing in this subsection contained shall be construed as authorizing member banks to purchase or sell securities or other property which such banks are not otherwise authorized by law to purchase or sell.

(e) No member bank shall pay to any director, officer, attorney, or employee a greater rate of interest on the deposits of such director, officer, attorney, or employee than that paid to other depositors on similar deposits with such member bank.

(f) If the directors or officers of any member bank shall knowingly violate or permit any of the agents, officers, or directors of any member bank to violate any of the provisions of this section or regulations of the board made under authority thereof, every director and officer participating in or assenting to such violation shall be held liable in his personal and individual capacity for all damages which the member bank, its shareholders, or any other persons shall have sustained in consequence of such violation.

\* Except banks admitted to membership in the system under authority of section 9 of this act. See section 9 of this act as amended by act approved June 21, 1917.

Sec. 23. The stockholders of every national banking association shall be held individually responsible for all contracts, debts, and engagements of such association, each to the amount of his stock therein, at the par value thereof in addition to the amount invested in such stock. The stockholders in any national banking association who shall have transferred their shares or registered the transfer thereof within sixty days next before the date of the failure of such association to meet its obligations, or with knowledge of such impending failure, shall be liable to the same extent as if they had made no such transfer, to the extent that the subsequent transferee fails to meet such liability; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure.

#### LOANS ON FARM LANDS.

Sec. 24. Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal reserve district or within a radius of one hundred miles of the place in which such bank is located, irrespective of district lines, and may also make loans secured by improved and unencumbered real estate located within one hundred miles of the place in which such bank is located, irrespective of district lines; but no loan made upon the security of such farm land shall be made for a longer time than five years, and no loan made upon the security of such real estate as distinguished from farm land shall be made for a longer time than one year nor shall the amount of any such loan, whether upon such farm land or upon such real estate, exceed fifty per centum of the actual value of the property offered as security. Any such bank may make such loans, whether secured by such farm land or such real estate, in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section.

#### FOREIGN BRANCHES.

Sec. 25. Any national banking association possessing a capital and surplus of \$1,000,000 or more may file application with the Federal Reserve Board for permission to exercise, upon such conditions and under such regulations as may be prescribed by the said board, either or both of the following powers:

First. To establish branches in foreign countries or dependencies or insular possessions of the United States for the furtherance of the foreign commerce of the United States, and to act if required to do so as fiscal agents of the United States.

Second. To invest an amount not exceeding in the aggregate ten per centum of its paid-in capital stock and surplus in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or of any State thereof, and principally engaged in international or foreign banking, or banking in a dependency or insular possession of the United States either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions.

Until January 1, 1921, any national banking association, without regard to the amount of its capital and surplus, may file application with the Federal Reserve Board for permission, upon such conditions and under such regulations as may be prescribed by said board, to invest an amount not exceeding in the aggregate 5 per centum of its paid-in capital and surplus in the stock of one or more corporations chartered or incorporated under the laws of the United States or of any State thereof and, regardless of its location, prin-

cipally engaged in such phases of international or foreign financial operations as may be necessary to facilitate the export of goods, wares, or merchandise from the United States or any of its dependencies or insular possessions to any foreign country; *Provided, however,* That in no event shall the total investments authorized by this section by any one national bank exceed 10 per centum of its capital and surplus.

Such application shall specify the name and capital of the banking association filing it, the powers applied for, and the place or places where the banking or financial operations proposed are to be carried on. The Federal Reserve Board shall have power to approve or to reject such application in whole or in part if for any reason the granting of such application is deemed inexpedient, and shall also have power from time to time to increase or decrease the number of places where such banking operations may be carried on.

Every national banking association operating foreign branches shall be required to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and every member bank investing in the capital stock of banks or corporations described above shall be required to furnish information concerning the condition of such banks or corporations to the Federal Reserve Board upon demand, and the Federal Reserve Board may order special examinations of the said branches, banks, or corporations at such time or times as it may deem best.

Before any national bank shall be permitted to purchase stock in any such corporation the said corporation shall enter into an agreement or undertaking with the Federal Reserve Board to restrict its operations or conduct its business in such manner or under such limitations and restrictions as the said board may prescribe for the place or places wherein such business is to be conducted. If at any time the Federal Reserve Board shall ascertain that the regulations prescribed by it are not being complied with, said board is hereby authorized and empowered to institute an investigation of the matter and to send for persons and papers, subpoena witnesses, and administer oaths in order to satisfy itself as to the actual nature of the transactions referred to. Should such investigation result in establishing the failure of the corporation in question, or of the national bank or banks which may be stockholders therein, to comply with the regulations laid down by the said Federal Reserve Board, such national banks may be required to dispose of stock holdings in the said corporation upon reasonable notice.

Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accrued at each branch as a separate item.

Any director or other officer, agent, or employee of any member bank may, with the approval of the Federal Reserve Board, be a director or other officer, agent, or employee of any such bank or corporation above mentioned in the capital stock of which such member bank shall have invested as hereinbefore provided, without being subject to the provisions of section eight of the Act approved October fifteenth, nineteen hundred and fourteen, entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes."\*

#### BANKING CORPORATIONS AUTHORIZED TO DO FOREIGN BANKING BUSINESS.

Sec. 25 (a). Corporations to be organized for the purpose of engaging in international or foreign banking or other international or foreign financial operations, or in banking or other financial operations in a dependency or insular possession of the United States, either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such de-

\* The Clayton Act.



dependencies or insular possessions as provided by this section, and to act when required by the Secretary of the Treasury as fiscal agents of the United States may be formed by any number of natural persons, not less in any case than five: *Provided*, That nothing in this section shall be construed to deny the right of the Secretary of the Treasury to use any corporation organized under this section as depositaries in Panama and the Panama Canal Zone, or in the Philippine Islands and other insular possessions and dependencies of the United States.

Such persons shall enter into articles of association which shall specify in general terms the objects for which the association is formed and may contain any other provisions not inconsistent with law which the association may see fit to adopt for the regulation of its business and the conduct of its affairs.

Such articles of association shall be signed by all of the persons intending to participate in the organization of the corporation and, thereafter, shall be forwarded to the Federal Reserve Board and shall be filed and preserved in its office. The persons signing the said articles of association shall under their hands, make an organization certificate which shall specifically state:

First. The name assumed by such corporation, which shall be subject to the approval of the Federal Reserve Board.

Second. The place or places where its operations are to be carried on.

Third. The place in the United States where its home office is to be located.

Fourth. The amount of its capital stock and the number of shares into which the same shall be divided.

Fifth. The names and places of business or residence of the persons executing the certificate and the number of shares to which each has subscribed.

Sixth. The fact that the certificate is made to enable the persons subscribing the same, and all other persons, firms, companies, and corporations, who or which may thereafter subscribe to or purchase shares of the capital stock of such corporation, to avail themselves of the advantages of this section.

The persons signing the organization certificate shall duly acknowledge the execution thereof before a judge of some court of record or notary public, who shall certify thereto under the seal of such court or notary, and thereafter the certificate shall be forwarded to the Federal Reserve Board to be filed and preserved in its office. Upon duly making and filing articles of association and an organization certificate, and after the Federal Reserve Board has approved the same and issued a permit to begin business, the association shall become and be a body corporate, and as such and in the name designated therein shall have power to adopt and use a corporate seal, which may be changed at the pleasure of its board of directors; to have succession for a period of twenty years unless sooner dissolved by the act of the shareholders owning two-thirds of the stock or by an Act of Congress or unless its franchises become forfeited by some violation of law; to make contracts; to sue and be sued, complain, and defend in any court of law or equity; to elect or appoint directors, all of whom shall be citizens of the United States; and, by its board of directors, to appoint such officers and employees as may be deemed proper, define their authority and duties, require bonds of them, and fix the penalty thereof, dismiss such officers or employees, or any thereof, at pleasure and appoint others to fill their places; to prescribe, by its board of directors, by-laws not inconsistent with law or with the regulations of the Federal Reserve Board regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers and employees appointed, its property transferred, and the privileges granted to it by law exercised and enjoyed.

Each corporation so organized shall have power, under such rules and regulations as the Federal Reserve Board may prescribe:

(a) To purchase, sell, discount, and negotiate, with or without its indorsement or guaranty, notes, drafts, checks, bills of exchange, acceptances, including bankers' acceptances, cable transfers, and other evidences of indebtedness; to purchase and sell, with or without its indorsement or guaranty, securities, including the obligations of the United States or of any State thereof but not including shares of stock in any corporation except as herein provided; to accept bills or drafts drawn upon it subject to such limitations and restrictions as the Federal Reserve Board may impose; to issue letters of credit; to purchase and sell coin, bullion, and exchange; to borrow and to lend money; to issue debentures, bonds, and promissory notes under such general conditions as to security and such limitations as the Federal Reserve Board may prescribe, but in no event having liabilities outstanding thereon at any one time exceeding ten times its capital stock and surplus; to receive deposits outside of the United States and to receive only such deposits within the United States as may be incidental to or for the purpose of carrying out transactions in foreign countries or dependencies or insular possessions of the United States; and generally to exercise such powers as are incidental to the powers conferred by this Act or as may be usual, in the determination of the Federal Reserve Board, in connection with the transaction of the business of banking or other financial operations in the countries, colonies, dependencies, or possessions in which it shall transact business and not inconsistent with the powers specifically granted herein. Nothing contained in this section shall be construed to prohibit the Federal Reserve Board, under its power to prescribe rules and regulations, from limiting the aggregate amount of liabilities of any or all classes incurred by the corporation and outstanding at any one time. Whenever a corporation organized under this section receives deposits in the United States authorized by this section it shall carry reserves in such amounts as the Federal Reserve Board may prescribe, but in no event less than 10 per centum of its deposits.

(b) To establish and maintain for the transaction of its business branches or agencies in foreign countries, their dependencies or colonies, and in the dependencies or insular possessions of the United States, at such places as may be approved by the Federal Reserve Board and under such rules and regulations as it may prescribe, including countries or dependencies not specified in the original organization certificate.

(c) With the consent of the Federal Reserve Board to purchase and hold stock or other certificates of ownership in any other corporation organized under the provisions of this section, or under the laws of any foreign country or a colony or dependency thereof, or under the laws of any State, dependency, or insular possession of the United States but not engaged in the general business of buying or selling goods, wares, merchandise or commodities in the United States and not transacting any business in the United States except such as in the judgment of the Federal Reserve Board may be incidental to its international or foreign business: *Provided, however*, That, except with the approval of the Federal Reserve Board, no corporation organized hereunder shall invest in any one corporation an amount in excess of 10 per centum of its own capital and surplus, except in a corporation engaged in the business of banking, when 15 per centum of its capital and surplus may be so invested: *Provided further*, That no corporation organized hereunder shall purchase, own, or hold stock or certificates of ownership in any other corporation organized hereunder or under the laws of any State which is in substantial competition therewith, or which holds stock or certificates of ownership in corporations which are in substantial competition with the purchasing corporation.

Nothing contained herein shall prevent corporations organized hereunder from purchasing and holding stock in any corporation where such purchase shall be necessary to prevent a loss upon a debt previously contracted in good faith; and stock so purchased or acquired in corporations



organized under this section shall within six months from such purchase be sold or disposed of at public or private sale unless the time to so dispose of same is extended by the Federal Reserve Board.

No corporation organized under this section shall carry on any part of its business in the United States except such as, in the judgment of the Federal Reserve Board, shall be incidental to its international or foreign business: *And provided further*, That except such as is incidental and preliminary to its organization no such corporation shall exercise any of the powers conferred by this section until it has been duly authorized by the Federal Reserve Board to commence business as a corporation organized under the provisions of this section.

No corporation organized under this section shall engage in commerce or trade in commodities except as specifically provided in this section, nor shall it either directly or indirectly control or fix or attempt to control or fix the price of any such commodities. The charter of any corporation violating this provision shall be subject to forfeiture in the manner hereinafter provided in this section. It shall be unlawful for any director, officer, agent, or employee of any such corporation to use or to conspire to use the credit, the funds, or the power of the corporation to fix or control the price of any such commodities, and any such person violating this provision shall be liable to a fine of not less than \$1,000 and not exceeding \$5,000 or imprisonment not less than one year and not exceeding five years, or both, in the discretion of the court.

No corporation shall be organized under the provisions of this section with a capital stock of less than \$2,000,000, one-quarter of which must be paid in before the corporation may be authorized to begin business, and the remainder of the capital stock of such corporation shall be paid in installments of at least 10 per centum on the whole amount to which the corporation shall be limited as frequently as one installment at the end of each succeeding two months from the time of the commencement of its business operations until the whole of the capital stock shall be paid in: *Provided, however*, That whenever \$2,000,000 of the capital stock of any corporation is paid in the remainder of the corporation's capital stock or any unpaid part of such remainder may, with the consent of the Federal Reserve Board and subject to such regulations and conditions as it may prescribe, be paid in upon call from the board of directors; such unpaid subscriptions, however, to be included in the maximum of 10 per centum of the national bank's capital and surplus which a national bank is permitted under the provisions of this Act to hold in stock of corporations engaged in business of the kind described in this section and in section 25 of the Federal Reserve Act as amended: *Provided, further*, That no such corporation shall have liabilities outstanding at any one time upon its debentures, bonds, and promissory notes in excess of ten times its paid-in capital and surplus. The capital stock of any such corporation may be increased at any time, with the approval of the Federal Reserve Board, by a vote of two-thirds of its shareholders or by unanimous consent in writing of the shareholders without a meeting and without a formal vote, but any such increase of capital shall be fully paid in within ninety days after such approval; and may be reduced in like manner, provided that in no event shall it be less than \$2,000,000. No corporation, except as herein provided, shall during the time it shall continue its operations withdraw or permit to be withdrawn either in the form of dividends or otherwise, any portion of its capital. Any national banking association may invest in the stock of any corporation organized under the provisions of this section, but the aggregate amount of stock held in all corporations engaged in business of the kind described in this section and in section 25 of the Federal Reserve Act as amended shall not exceed 10 per centum of the subscribing bank's capital and surplus.

A majority of the shares of the capital stock of any such corporation shall at all times be held

and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies, the controlling interest in which is owned by citizens of the United States. The provisions of section 8 of the act approved October 15, 1914, entitled "An act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," as amended by the acts of May 15, 1916, and September 7, 1916, shall be construed to apply to the directors, other officers, agents, or employees of corporations organized under the provisions of this section: *Provided, however*, That nothing herein contained shall (1) prohibit any director or other officer, agent or employee of any member bank, who has procured the approval of the Federal Reserve Board from serving at the same time as a director or other officer, agent, or employee of any corporation organized under the provisions of this section in whose capital stock such member bank shall have invested; or (2) prohibit any director or other officer, agent, or employee of any corporation organized under the provisions of this section, who has procured the approval of the Federal Reserve Board, from serving at the same time as a director or other officer, agent, or employee of any other corporation in whose capital stock such first-mentioned corporation shall have invested under the provisions of this section.

No member of the Federal Reserve Board shall be an officer or director of any corporation organized under the provisions of this section, or of any corporation engaged in similar business organized under the laws of any State, nor hold stock in any such corporation, and before entering upon his duties as a member of the Federal Reserve Board he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement.

Shareholders in any corporation organized under the provisions of this section shall be liable for the amount of their unpaid stock subscriptions. No such corporation shall become a member of any Federal Reserve Bank.

Should any corporation organized hereunder violate or fail to comply with any of the provisions of this section, all of its rights, privileges, and franchises derived herefrom may thereby be forfeited. Before any such corporation shall be declared dissolved, or its rights, privileges, and franchises forfeited, any noncompliance with, or violation of such laws shall, however, be determined and adjudged by a court of the United States of competent jurisdiction, in a suit brought for that purpose in the district or territory in which the home office of such corporation is located, which suit shall be brought by the United States at the instance of the Federal Reserve Board or the Attorney General. Upon adjudication of such noncompliance or violation, each director and officer who participated in, or assented to, the illegal act or acts, shall be liable in his personal or individual capacity for all damages which the said corporation shall have sustained in consequence thereof. No dissolution shall take away or impair any remedy against the corporation, its stockholders, or officers for any liability or penalty previously incurred.

Any such corporation may go into voluntary liquidation and be closed by a vote of its shareholders owning two-thirds of its stock.

Whenever the Federal Reserve Board shall become satisfied of the insolvency of any such corporation, it may appoint a receiver who shall take possession of all of the property and assets of the corporation and exercise the same rights, privileges, powers, and authority with respect thereto as are now exercised by receivers of national banks appointed by the Comptroller of the Currency of the United States: *Provided, however*, That the assets of the corporation subject to the laws of other countries or jurisdictions shall be dealt with in accordance with the terms of such laws.

Every corporation organized under the provisions of this section shall hold a meeting of its stockholders annually upon a date fixed in its by-

laws, such meeting to be held at its home office in the United States. Every such corporation shall keep at its home office books containing the names of all stockholders thereof, and the names and addresses of the members of its board of directors, together with copies of all reports made by it to the Federal Reserve Board. Every such corporation shall make reports to the Federal Reserve Board at such times and in such form as it may require; and shall be subject to examination once a year and at such other times as may be deemed necessary by the Federal Reserve Board by examiners appointed by the Federal Reserve Board, the cost of such examinations, including the compensation of the examiners, to be fixed by the Federal Reserve Board and to be paid by the corporation examined.

The directors of any corporation organized under the provisions of this section may, semiannually, declare a dividend of so much of the net profits of the corporation as they shall judge expedient; but each corporation shall, before the declaration of a dividend, carry one-tenth of its net profits of the preceding half year to its surplus fund until the same shall amount to 20 per centum of its capital stock.

Any corporation organized under the provisions of this section shall be subject to tax by the State within which its home office is located in the same manner and to the same extent as other corporations organized under the laws of that State which are transacting a similar character of business. The shares of stock in such corporation shall also be subject to tax as the personal property of the owners or holders thereof in the same manner and to the same extent as the shares of stock in similar State corporations.

Any corporation organized under the provisions of this section may at any time within the two years next previous to the date of the expiration of its corporate existence, by a vote of the shareholders owning two-thirds of its stock, apply to the Federal Reserve Board for its approval to extend the period of its corporate existence for a term of not more than twenty years, and upon certified approval of the Federal Reserve Board such corporation shall have its corporate existence for such extended period unless sooner dissolved by the act of the shareholders owning two-thirds of its stock, or by an Act of Congress or unless its franchise becomes forfeited by some violation of law.

Any bank or banking institution, principally engaged in foreign business, incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a corporation under the provisions of this section may, by the vote of the shareholders owning not less than two-thirds of the capital stock of such bank or banking association, with the approval of the Federal Reserve Board, be converted into a Federal corporation of the kind authorized by this section with any name approved by the Federal Reserve Board: *Provided, however,* That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of at least two-thirds of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a Federal corporation. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a Federal corporation. The shares of any such corporation may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the corporation until others are elected or appointed in accordance with the provisions of this section. When the Federal Reserve Board has given to such corporation a certificate that the provisions of this section have been complied with, such corporation and all its

stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by this section for corporations originally organized hereunder.

Every officer, director, clerk, employee, or agent of any corporation organized under this section who embezzles, abstracts, or willfully misapplies any of the moneys, funds, credits, securities, evidences of indebtedness or assets of any character of such corporation; or who, without authority from the directors, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, debenture, draft, bill of exchange, mortgage, judgment, or decree; or who makes any false entry in any book, report, or statement of such corporation with intent, in either case, to injure or defraud such corporation or any other company, body politic or corporate, or any individual person, or to deceive any officer of such corporation, the Federal Reserve Board, or any agent or examiner appointed to examine the affairs of any such corporation; and every receiver of any such corporation and every clerk or employee of such receiver who shall embezzle, abstract, or willfully misapply or wrongfully convert to his own use any moneys, funds, credits, or assets of any character which may come into his possession or under his control in the execution of his trust or the performance of the duties of his employment; and every such receiver or clerk or employee of such receiver who shall, with intent to injure or defraud any person, body politic or corporate, or to deceive or mislead the Federal Reserve Board, or any agent or examiner appointed to examine the affairs of such receiver, shall make any false entry in any book, report, or record of any matter connected with the duties of such receiver; and every person who with like intent aids or abets any officer, director, clerk, employee, or agent of any corporation organized under this section, or receiver or clerk or employee of such receiver as aforesaid in any violation of this section, shall upon conviction thereof be imprisoned for not less than two years nor more than ten years, and may also be fined not more than \$5,000, in the discretion of the court.

Whoever being connected in any capacity with any corporation organized under this section represents in any way that the United States is liable for the payment of any bond or other obligation, or the interest thereon, issued or incurred by any corporation organized hereunder, or that the United States incurs any liability in respect of any act or omission of the corporation, shall be punished by a fine of not more than \$10,000 and by imprisonment for not more than five years.

Sec. 26. All provisions of law inconsistent with or superseded by any of the provisions of this Act are to that extent and to that extent only hereby repealed: *Provided,* Nothing in this Act contained shall be construed to repeal the parity provision or provisions contained in an Act approved March fourteenth, nineteen hundred, entitled "An Act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes," and the Secretary of the Treasury may, for the purpose of maintaining such parity and to strengthen the gold reserve, borrow gold on the security of United States bonds authorized by section two of the Act last referred to or for one-year gold notes bearing interest at a rate of not to exceed three per centum per annum, or sell the same if necessary to obtain gold. When the funds of the Treasury on hand justify, he may purchase and retire such outstanding bonds and notes.

Sec. 27. The provisions of the Act of May thirtieth, nineteen hundred and eight, authorizing national currency associations, the issue of additional national-bank circulation, and creating a National Monetary Commission, which expires by limitation under the terms of such Act on the thirtieth day of June, nineteen hundred and fourteen, are hereby extended to June thirtieth, nineteen hundred and fifteen, and sections fifty-one



hundred and fifty-three, fifty-one hundred and seventy-two, fifty-one hundred and ninety-one, and fifty-two hundred and fourteen of the Revised Statutes of the United States, which were amended by the Act of May thirtieth, nineteen hundred and eight, are hereby reenacted to read as such sections read prior to May thirtieth, nineteen hundred and eight, subject to such amendments or modifications as are prescribed in this Act: *Provided, however,* That section nine of the Act first referred to in this section is hereby amended so as to change the tax rates fixed in said Act by making the portion applicable thereto read as follows:

National banking associations having circulating notes secured otherwise than by bonds of the United States, shall pay for the first three months a tax rate at the rate of three per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax rate of one-half of one per centum per annum for each month until a tax of six per centum per annum is reached, and thereafter such tax of six per centum per annum upon the average amount of such notes: *Provided further,* That whenever in his judgment he may deem is desirable, the Secretary of the Treasury shall have power to suspend the limitations imposed by section one and section three of the Act referred to in this section, which prescribe that such additional circulation secured otherwise than by bonds of the United States shall be issued only to National banks having circulating notes outstanding secured by the deposit of bonds of the United States to an amount not less than forty per centum of the capital stock of such banks, and to suspend also the conditions and limitations of section five of said Act except that no bank shall be permitted to issue circulating notes in excess of one hundred and twenty-five per centum of its unimpaired capital and surplus. He shall require each bank and currency association to maintain on deposit in the Treasury of the United States a sum in gold sufficient in his judgment for the redemption of such notes, but in no event less than five per centum. He may permit National banks, during the period for which such provisions are suspended, to issue additional circulation under the terms and conditions of the Act referred to as herein amended: *Provided further,* That the Secretary of the Treasury, in his discretion, is further authorized to extend the benefits of this Act to all qualified State banks and trust companies, which have joined the Federal reserve system, or which may contract to join within fifteen days after the passage of this Act.

Sec. 28. Section fifty-one hundred and forty-three of the Revised Statutes is hereby amended and reenacted to read as follows: Any association formed under this title may, by the vote of the shareholders owning two-thirds of its capital stock, reduce its capital to any sum not below the amount required by this title to authorize the formation of associations; but no such reduction shall be allowable which will reduce the capital of the association below the amount required for its outstanding circulation, nor shall any reduction be made until the amount of the proposed reduction has been reported to the Comptroller of the Currency and such reduction has been approved by the said Comptroller of the Currency and by the Federal Reserve Board, or by the organization committee pending the organization of the Federal Reserve Board.

Sec. 29. If any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

Sec. 30. The right to amend, alter, or repeal this Act is hereby expressly reserved.

(See Farm Credits Act, Federal Reserve System.)

### Federal Reserve Advisory Council

A board which consists of twelve members elected annually by the board of directors of each of the twelve Federal Reserve banks. Its meetings are held at least four times a year at Washington, D. C., and oftener if the council deems necessary. The purpose of this body is to assist the Federal Reserve Board by making recommendations upon important matters before action is taken. Its functions are purely advisory and not mandatory. It has power to confer with the Federal Reserve Board on general business conditions, to make oral or written representation concerning matters within the jurisdiction of the Federal Reserve Board and to call for information and to make recommendations concerning discount rates, rediscount business, note issues, reserve conditions, etc. (See Federal Reserve Act, Sec. 12.)

### Federal Reserve Agent

The chairman of the board of directors of each Federal Reserve bank, who is also designated as "Federal Reserve Agent" for the district in which the bank is located. He is a Class C director and is the official representative of the Federal Reserve Board with each Federal Reserve bank. His chief function as Federal Reserve Agent is to receive applications for the issue of Federal Reserve notes and to secure the approval of the Federal Reserve Board for their ultimate issue. The collateral for Federal Reserve notes is held under his custody and he is required to give bond to the Federal Reserve Board for the faithful performance of his duties. (See Federal Reserve Act, Sec. 11.)

### Federal Reserve Bank

One of the twelve Federal Reserve banks created under the *Federal Reserve Act* (q. v.), and operating in one of the twelve Federal Reserve districts. Federal Reserve banks are also known as "central," "reserve," and "regional," banks. (See Federal Reserve Cities, Federal Reserve Districts, Federal Reserve System.)

### Federal Reserve Bank Account

An account which every member bank and clearing member bank is required to maintain with the Federal Reserve bank of its district. This account represents the cash balance due from the Federal Reserve bank, and for member banks must be sufficient in amount to provide for the legal reserve against deposits.

### Federal Reserve Bank Collections Account

An account appearing in the general ledger and financial statement of a bank which represents the amount of out-of-town checks sent for collection through the *Federal Reserve Check Collection System* (q. v.), in the process of collection and not yet available as reserve. It also represents the total of the balances in the Federal Reserve collection ledger in the transit department. When checks sent for collection in this manner become available, they are added to the Federal Reserve Bank Account and subtracted from the Federal Reserve Bank Collections Account.

### Federal Reserve Bank Earnings

See Federal Reserve System.

### Federal Reserve Bank Notes

Circulating notes issued by the various Federal Reserve banks with Government bonds or notes as security. The United States Government pre-war bonds, and under the *Pittman Act* (q. v.), United States certificates of indebtedness and one-year gold notes, are eligible as security for Federal Reserve bank notes, and must equal at par 100 per cent. of the amount issued. There is no legal limit to the amount which a Federal Reserve bank may issue.

Federal Reserve bank notes bear the distinctive number of the Federal Reserve bank of issue. They are engraved with green backs, bear a blue seal on the obverse side, and carry the same denominational portraits as *Federal Reserve Notes* (q. v.). The denominations authorized by law are \$1, \$2, \$5, \$10, \$20, \$50, \$100, \$500, and \$1,000. A redemption fund equal to 5 per cent. of the amount outstanding is required to be deposited with the United States Treasury from which these notes may be redeemed, if presented. They are also redeemable in gold or lawful money at the issuing bank.

These notes are not legal tender, but are receivable for all public dues, except duties on imports, and may be paid out by the Government for all purposes except interest on the public debt and redemption of Federal Reserve bank notes.

### Federal Reserve Bank Statement

See Federal Reserve Statement.

### Federal Reserve Bank Stock

See Federal Reserve System.

### Federal Reserve Board

The body upon whom the general supervision of the Federal Reserve System rests. It consists of six members, exclusive of the Secretary of the Treasury and the Comptroller of the Currency, who are ex-officio members.

The work of this organization which sits at Washington may be separated into seven divisions: (1) audit and examination; (2) reports and statistics; (3) clearing; (4) correspondence; (5) issue; (6) foreign exchange; and (7) analysis and research. Each of these divisions has a chief, who has charge of the work and employees of his division. The Board also appoints a secretary, assistant secretary, fiscal agent, general counsel, and statistician.

The division of audit and examination is headed by the chief Federal Reserve Examiner under whom is organized a corps of examiners and assistant examiners.

The division of reports and statistics is organized to carry out the provisions of the Federal Reserve Act which require a weekly report of condition of each Federal Reserve bank, showing the main items in their accounts. Data are telegraphed each week to the Board and the figures are combined to make up the *Federal Reserve Statement* (q. v.). Other information, e. g., open market transactions, rediscounts, maturities, rates, etc., is sent to the Board for preparation in such form as will enable the Board to form conclusions in regard to policy.

The clearing division is organized to settle the balances arising among Federal Reserve banks in inter-district clearings. This division conducts a set of books which records the daily debits and credits of each Federal Reserve bank for the amounts it has received from and sent against all other banks, and shows the net results of the transactions as they affect each bank's ownership in the *Gold Settlement Fund* (q. v.).

The correspondence division has charge of the general clerical work required to keep in communication with the several Federal Reserve banks, member banks, and the public.

The issue division is in charge of the administration of issue and retirement of Federal Reserve notes. It receives, counts, packs, and ships this currency to the Federal Reserve banks, although the details are handled through the Bureau of Engraving and Printing.

The foreign exchange division has charge of all matters that pertain to foreign ex-



change, while the analysis and research division engages in studies of business, credit, financial, and banking conditions, and submits reports of its investigations to the Federal Reserve Board for their information, or for publication. (See Federal Reserve System.)

### Federal Reserve Board Regulations

The Federal Reserve Act empowers the Federal Reserve Board to issue regulations from time to time to define the terms and conditions which may arise as a result of banking practice under the Act, and to interpret the meaning of the various sections of the Act. These regulations may be regarded as supplemental to the Act, since they are designed to clarify practice and establish uniformity of procedure.

Separate regulations are published for the information of Federal Reserve banks, Federal Reserve agents, and member banks. Four series of regulations of interest to member banks have thus far been issued, those of 1915, 1917, 1920, and 1923. The latter series, including 12 regulations from A to L, are now in effect.

The following is the full text of the regulations, 1923 series:

#### REGULATION A

##### ARTICLE A.

#### NOTES, DRAFTS, AND BILLS OF EXCHANGE.

##### SECTION I. GENERAL STATUTORY PROVISIONS.

Any Federal Reserve Bank may discount for any of its member banks any note, draft, or bill of exchange: *Provided*—

(a) It has a definite maturity at the time of discount of not more than 90 days, exclusive of days of grace; except that (1) if drawn or issued for an agricultural purpose or based on live stock, it may have a maturity at the time of discount of not more than nine months, exclusive of days of grace, and (2) certain bills of exchange payable at sight or on demand are eligible even though they have no definite maturity (see Section VII, below);

(b) It has been issued or drawn for an agricultural, industrial, or commercial purpose, or the proceeds have been used or are to be used for such a purpose, or it is a note, draft, or bill of exchange of a factor issued as such making advances exclusively to producers of staple agricultural products in their raw state;

(c) It was not issued for carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States;

(d) The aggregate of notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, discounted for any one member bank, whether State or National, shall at no time exceed 10 per cent of the unimpaired capital and surplus of such bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values;

(e) It is indorsed by a member bank; and

(f) It conforms to all applicable provisions of this regulation.

No Federal Reserve Bank may discount for any member State bank or trust company any of the

notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than that which could be borrowed lawfully from such State bank or trust company under the terms of section 5200 of the United States Revised Statutes, as amended, were it a national banking association.

Any Federal Reserve Bank may make advances to its member banks on their promissory notes for a period not exceeding fifteen days, provided that they are secured by notes, drafts, bills of exchange, or bankers' acceptances which are eligible for discount or for purchase by Federal Reserve Banks, or by the deposit or pledge of bonds or notes of the United States, or bonds of the War Finance Corporation.

##### SECTION II. GENERAL CHARACTER OF NOTES, DRAFTS, AND BILLS OF EXCHANGE ELIGIBLE.

The Federal Reserve Board, exercising its statutory right to define the character of a note, draft, or bill of exchange eligible for discount at a Federal Reserve Bank has determined that—

(a) It must be a negotiable note, draft, or bill of exchange which has been issued or drawn, or the proceeds of which have been used or are to be used in the first instance, in producing, purchasing, carrying, or marketing goods\* in one or more of the steps of the process of production, manufacture, distribution, or for the purpose of carrying or trading in bonds or notes of the United States, and the name of a party to such transaction must appear upon it as maker, drawer, acceptor, or indorser.

(b) It must not be a note, draft, or bill of exchange the proceeds of which have been or are to be advanced or loaned to some other borrower, except as to paper described below under Sections VI (b) and VIII.

(c) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings, or machinery, or for any other capital purpose.

(d) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for investments of a purely speculative character.

(e) It may be secured by the pledge of goods or collateral of any nature, including paper which is ineligible for discount, provided it (the note, draft, or bill of exchange) is otherwise eligible.

##### SECTION III. APPLICATIONS FOR DISCOUNT.

Every application for the discount of notes, drafts, or bills of exchange must contain a certificate of the member bank, in form to be prescribed by the Federal Reserve Bank, that, to the best of its knowledge and belief, such notes, drafts, or bills of exchange have been issued or drawn or the proceeds thereof have been or are to be used, for such a purpose as to render them eligible for discount under the terms of this regulation, and, in the case of a member State bank or trust company, every application must contain a certificate or guaranty to the effect that the borrower is not liable, and will not be permitted to become liable during the time his paper is held by the Federal Reserve Bank, to such bank or trust company for borrowed money in an amount greater than that which could be borrowed lawfully from such State bank or trust company under the terms of section 5200 of the United States Revised Statutes, as amended, were it a national banking association.

##### SECTION IV. PROMISSORY NOTES.

(a) *Definition.*—A promissory note, within the meaning of this regulation, is defined as an unconditional promise, in writing, signed by the maker, to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to order or to bearer.

\* When used in this regulation the word "goods" shall be construed to include goods, wares, merchandise, or agricultural products, including live stock.

(b) *Evidence of eligibility and requirement of statements.*—A Federal Reserve Bank must be satisfied by reference to the note or otherwise that it is eligible for discount. The member bank shall certify in its application whether the note offered for discount has been discounted for a depositor other than a bank or for a nondepositor and, if discounted for a bank, whether for a member bank or a nonmember bank. The member bank must also certify whether a financial statement of the borrower is on file with it.

A recent financial statement of the borrower must be on file with the member bank in all cases, unless the note was discounted by a member bank for a depositor (other than a bank) or for another member bank, and—

(1) It is secured by a warehouse, terminal, or other similar receipt covering goods in storage, by a valid prior lien on live stock which is being marketed or fattened for market, or by bonds or notes of the United States; or

(2) The aggregate of obligations of the borrower discounted and offered for discount at the Federal Reserve Bank by the member bank is less than a sum equal to 10 per cent of the paid-in capital of the member bank and is less than \$5,000.

A Federal Reserve Bank shall use its discretion in taking the steps necessary to satisfy itself as to eligibility. Compliance of a note with Section II (c) may be evidenced by a statement of the borrower showing a reasonable excess of quick assets over current liabilities. A Federal Reserve Bank may, in all cases, require the financial statement of the borrower to be filed with it.

#### SECTION V. DRAFTS, BILLS OF EXCHANGE, AND TRADE ACCEPTANCES.

(a) *Definition.*—A draft or bill of exchange, within the meaning of this regulation, is defined as an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay in the United States, at a fixed or determinable future time, a sum certain in dollars to the order of a specified person; and a trade acceptance is defined as a draft or bill of exchange, drawn by the seller on the purchaser of goods sold,\* and accepted by such purchaser.

(b) *Evidence of eligibility and requirement of statements.*—A Federal Reserve Bank shall take such steps as it deems necessary to satisfy itself as to the eligibility of the draft, bill, or trade acceptance offered for discount and may require a recent financial statement of one or more parties to the instrument. The draft, bill, or trade acceptance should be drawn so as to evidence the character of the underlying transaction, but if it is not so drawn evidence of eligibility may consist of a stamp or certificate affixed by the acceptor or drawer in a form satisfactory to the Federal Reserve Bank.

#### SECTION VI. AGRICULTURAL PAPER.

(a) *Definition.*—Agricultural paper, within the meaning of this regulation, is defined as a negotiable note, draft, or bill of exchange issued or drawn, or the proceeds of which have been or are to be used, for agricultural purposes, including the production of agricultural products, the marketing of agricultural products by the growers thereof, or the carrying of agricultural products by the growers thereof pending orderly marketing, and the breeding, raising, fattening, or marketing of live stock, and which has a maturity at the time of discount of not more than nine months, exclusive of days of grace.

(b) *Paper of cooperative marketing associations.*—Under the express terms of section 13a, notes, drafts, bills of exchange, or acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products are deemed to have been issued or drawn for an agri-

\* A consignment of goods or a conditional sale of goods cannot be considered "goods sold" within the meaning of this clause. The purchase price of goods plus the cost of labor in effecting their installation may be included in the amount for which the trade acceptance is drawn.

cultural purpose, if the proceeds thereof have been or are to be—

(1) Advanced by such association to any members thereof for an agricultural purpose, or

(2) Used by such association in making payments to any members thereof on account of agricultural products delivered by such members to the association, or

(3) Used by such association to meet expenditures incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product handled by such association for any of its members.

These are not the only classes of paper of such associations which are eligible for discount, however, and any other paper of such associations which complies with the applicable requirements of this regulation may be discounted on the same terms and conditions as the paper of any other person or corporation.

Paper of cooperative marketing associations the proceeds of which have been or are to be used (1) to defray the expenses of organizing such associations, or (2) for the acquisition of warehouses, for the purchase or improvement of real estate, or for any other permanent or fixed investment of any kind, are not eligible for discount, even though such warehouses or other property are to be used exclusively in connection with the ordinary operations of the association.

(c) *Eligibility.*—To be eligible for discount, agricultural paper, whether a note, draft, bill of exchange, or trade acceptance, must comply with the respective sections of this regulation which would apply to it if its maturity were 90 days or less.

(d) *Discounts for Federal Intermediate Credit Banks.*—Any Federal Reserve Bank may discount agricultural paper for any Federal Intermediate Credit Bank; but no Federal Reserve Bank shall discount for any Federal Intermediate Credit Bank any such paper which bears the indorsement of any nonmember State bank or trust company which is eligible for membership in the Federal Reserve System under the terms of section 9 of the Federal Reserve Act as amended. In discounting such paper each Federal Reserve Bank shall give preference to the demands of its own member banks and shall have due regard to the probable future needs of its own member banks; and no Federal Reserve Bank shall discount paper for any Federal Intermediate Credit Bank when its own reserves amount to less than 50 per cent of its own aggregate liabilities for deposits and Federal reserve notes in actual circulation. The aggregate amount of paper discounted by all Federal Reserve Banks for any one Federal Intermediate Credit Bank shall at no time exceed an amount equal to the paid-up and unimpaired capital and surplus of such Federal Intermediate Credit Bank.

(e) *Limitations.*—The Federal Reserve Board prescribes no limitation on the aggregate amount of notes, drafts, bills of exchange, and acceptances with maturities in excess of three months, but not exceeding six months, exclusive of days of grace, which may be discounted by any Federal Reserve Bank; but the aggregate amount of notes, drafts, bills of exchange, and acceptances with maturities in excess of six months, but not exceeding nine months, which may be discounted by any Federal Reserve Bank shall not exceed 10 per cent of its total assets.

#### SECTION VII. SIGHT DRAFTS SECURED BY BILLS OF LADING.

A Federal Reserve Bank may discount for any of its member banks bills of exchange payable at sight or on demand which—

(a) Are drawn to finance the domestic shipment of nonperishable, readily marketable, staple agricultural products, and

(b) Are secured by bills of lading or other shipping documents conveying or securing title to such staples.

All such bills of exchange shall be forwarded promptly for collection, and demand for payment shall be made promptly, unless the drawer instructs that they be held until arrival of car, in which



event they must be presented for payment within a reasonable time after notice of arrival of such staples at their destination has been received. In no event shall any such bill be held by or for the account of a Federal Reserve Bank for a period in excess of 90 days.

In discounting such bills Federal Reserve Banks may compute the interest to be deducted on the basis of the estimated life of each bill and adjust the amount thus deducted after payment of such bills to conform to the actual life thereof.

#### SECTION VIII. FACTORS' PAPER.

Notes, drafts, and bills of exchange of factors issued as such for the purpose of making advances exclusively to producers of staple agricultural products in their raw state are eligible for discount with maturities not in excess of 90 days, exclusive of days of grace, irrespective of the requirements of Sections II(a) and II(b).

### ARTICLE B. BANKERS' ACCEPTANCES.

#### SECTION IX. DEFINITION.

A banker's acceptance within the meaning of this regulation is defined as a draft or bill of exchange, whether payable in the United States or abroad and whether payable in dollars or some other money, of which the acceptor is a bank or trust company, or a firm, person, company, or corporation engaged generally in the business of granting bankers' acceptance credits.

#### SECTION X. ELIGIBILITY.

A Federal Reserve Bank may discount any such bill bearing the indorsement of a member bank and having a maturity at the time of discount not greater than that prescribed by Section XI (a), which has been drawn under a credit opened for the purpose of conducting or settling accounts resulting from a transaction or transactions involving any one of the following:

(1) The shipment of goods between the United States and any foreign country, or between the United States and any of its dependencies or insular possessions, or between foreign countries, or between dependencies or insular possessions and foreign countries;

(2) The shipment of goods within the United States, provided shipping documents conveying security title are attached at the time of acceptance; or

(3) The storage of readily marketable staples,\* provided that the bill secured at the time of acceptance by a warehouse, terminal, or other similar receipt, conveying security title to such staples, issued by a party independent of the customer, and provided further that the acceptor remains secured throughout the life of the acceptance. In the event that the goods must be withdrawn from storage prior to the maturity of the acceptance or the retirement of the credit, a trust receipt or other similar document covering the goods may be substituted in lieu of the original document, provided that such substitution is conditioned upon a reasonably prompt liquidation of the credit. In order to insure compliance with this condition it should be required, when the original document is released, either (a) that the proceeds of the goods will be applied within a specified time toward a liquidation of the acceptance credit or (b) that a new document, similar to the original one, will be resubstituted within a specified time.

Provided, that acceptances for any one customer in excess of 10 per cent of the capital and surplus of the accepting bank must remain actually secured throughout the life of the acceptance, and

\* A readily marketable staple within the meaning of these regulations may be defined as an article of commerce, agriculture, or industry of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of price as to make (a) the price easily and definitely ascertainable and (b) the staple itself easy to realize upon by sale at any time.

in the case of the acceptances of member banks this security must consist of shipping documents, warehouse receipts, or other such documents, or some other actual security growing out of the same transaction as the acceptance, such as documentary drafts, trade acceptances, terminal receipts, or trust receipts which have been issued under such circumstances, and which cover goods of such a character, as to insure at all times a continuance of an effective and lawful lien in favor of the accepting bank, other trust receipts not being considered such actual security if they permit the customer to have access to or control over the goods.

A Federal Reserve Bank may also discount any bill drawn by a bank or banker in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange as provided in Regulation C, provided that it has a maturity at the time of discount of not more than three months, exclusive of days of grace.

#### SECTION XI. MATURITIES.

(a) *Legal requirements.*—No such acceptance is eligible for discount which has a maturity at the time of discount in excess of 90 days' sight, exclusive of days of grace, except that acceptances drawn for agricultural purposes and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples may be discounted with maturities at the time of discount of more than six months' sight, exclusive of days of grace.

(b) *General conditions as to maturity of domestic acceptances.*—Although a Federal Reserve Bank may legally discount an acceptance having a maturity at the time of discount not greater than that prescribed under (a), it may decline to discount any acceptance the maturity of which is in excess of the usual or customary period of credit required to finance the underlying transaction or which is in excess of that period reasonably necessary to finance such transaction. Since the purpose of permitting the acceptance of drafts secured by warehouse receipts or other such documents is to permit of the temporary holding of readily marketable staples in storage pending a reasonably prompt sale, shipment, or distribution, no such acceptance should have a maturity in excess of the time ordinarily necessary to effect a reasonably prompt sale, shipment, or distribution into the process of manufacture or consumption.

#### SECTION XII. EVIDENCE OF ELIGIBILITY.

A Federal Reserve Bank must be satisfied, either by reference to the acceptance itself, or otherwise, that the acceptance is eligible for discount under the terms of the law and the provisions of this regulation. The bill itself should be drawn so as to evidence the character of the underlying transaction, but if it is not so drawn evidence of eligibility may consist of a stamp or certificate affixed by the acceptor in form satisfactory to the Federal Reserve Bank.

## REGULATION B

### OPEN MARKET PURCHASES OF BILLS OF EXCHANGE, TRADE ACCEPTANCES, AND BANKERS' ACCEPTANCES UNDER SECTION 14.

#### SECTION I. GENERAL STATUTORY PROVISIONS.

Section 14 of the Federal Reserve Act provides that, under rules and regulations to be prescribed by the Federal Reserve Board, Federal Reserve Banks may purchase and sell in the open market, at home or abroad, from or to domestic or foreign banks, firms, corporations, or individuals, bills of exchange of the kinds and maturities made eligible by the act for discount and bankers' acceptances, with or without the indorsement of a member bank.

#### SECTION II. GENERAL CHARACTER OF BILLS AND ACCEPTANCES ELIGIBLE.

The Federal Reserve Board, exercising its statutory right to regulate the purchase of bills of exchange and acceptances, prescribes that—

(a) Any banker's acceptance or bill of exchange which is eligible for discount under the terms of Regulation A is eligible for purchase by Federal Reserve Banks in the open market, with or without the indorsement of a member bank, if—

(1) It has been accepted by the drawee prior to purchase; or

(2) It is accompanied or secured by shipping documents or by warehouse, terminal, or other similar receipts conveying security title; or

(3) It bears a satisfactory bank indorsement;

(b) A banker's acceptance growing out of a transaction involving the importation or exportation of goods may be purchased if it has a maturity not in excess of six months, exclusive of days of grace, provided that it conforms in other respects to the applicable requirements of Regulation A; and

(c) A banker's acceptance growing out of a transaction involving the storage within the United States of goods actually under contract for sale and not yet delivered or paid for may be purchased, provided that the acceptor is secured by the pledge of such goods, and provided further, that the acceptance conforms in other respects to the applicable requirements of Regulation A.

#### SECTION III. STATEMENTS.

A bill of exchange, unless indorsed by a member bank, is not eligible for purchase until a satisfactory statement has been furnished of the financial condition of one or more of the parties thereto.

A banker's acceptance, unless accepted or indorsed by a member bank, is not eligible for purchase until the acceptor has furnished a satisfactory statement of its financial condition in form to be approved by the Federal Reserve Bank and has agreed in writing with a Federal Reserve Bank to inform it upon request concerning the transaction underlying the acceptance.

### REGULATION C

#### ACCEPTANCE BY MEMBER BANKS OF DRAFTS AND BILLS OF EXCHANGE.

##### ARTICLE A.

#### ACCEPTANCE OF DRAFTS OR BILLS OF EXCHANGE DRAWN AGAINST DOMESTIC OR FOREIGN SHIPMENTS OF GOODS OR SECURED BY WAREHOUSE RECEIPTS COVERING READILY MARKETABLE STAPLES.

##### SECTION I. STATUTORY PROVISIONS.

Under the provisions of the sixth paragraph of section 13 of the Federal Reserve Act, as amended, any member bank may accept drafts or bill of exchange drawn upon it, having not more than six months' sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods, provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples.\* This paragraph limits the amount which any bank shall accept for any one person, company, firm, or corporation, whether in a foreign or domestic transaction, to an amount not exceeding at any time, in the aggregate, more than 10 per cent of its paid-up and unimpaired capital stock and surplus. This limit, however, does not apply in any case where the accepting bank remains secured either by attached documents or by some other actual security

\* A readily marketable staple within the meaning of these regulations may be defined as an article of commerce, agriculture, or industry of such uses as to make it the subject of constant dealings in ready markets with such frequent quotations of price as to make (a) the price easily and definitely ascertainable and (b) the staple itself easy to realize upon by sale at any time.

growing out of the same transaction as the acceptance. A trust receipt which permits the customer to have access to or control over the goods will not be considered by Federal Reserve Banks to be "actual security" within the meaning of section 13. A bill of lading draft, however, is "actual security" even after the documents have been released, provided that the draft is accepted by the drawee upon or before the surrender of the documents. The law also provides that any bank may accept such bills up to an amount not exceeding at any time, in the aggregate, more than one-half of its paid-up and unimpaired capital stock and surplus; or, with the approval if the Federal Reserve Board, up to an amount not exceeding at any time, in the aggregate, more than 100 per cent of its paid-up and unimpaired capital stock and surplus. In no event, however, shall the aggregate amount of acceptances growing out of domestic transactions exceed 50 per cent of such capital stock and surplus.

#### SECTION II. REGULATIONS

1. Under the provisions of the law referred to above the Federal Reserve Board has determined that any member bank, having an unimpaired surplus equal to at least 20 per cent of its paid-up capital, which desires to accept drafts or bills of exchange drawn for the purposes described above, up to an amount not exceeding at any time, in the aggregate, 100 per cent of its paid-up and unimpaired capital stock and surplus, may file an application for that purpose with the Federal Reserve Board. Such application must be forwarded through the Federal Reserve Bank of the district in which the applying bank is located.

2. The Federal Reserve Bank shall report to the Federal Reserve Board upon the standing of the applying bank, stating whether the business and banking conditions prevailing in its district warrant the granting of such application.

3. The approval of any such application may be rescinded upon 90 days' notice to the bank affected.

#### ARTICLE B.

#### ACCEPTANCE OF DRAFTS OR BILLS OF EXCHANGE DRAWN FOR THE PURPOSE OF CREATING DOLLAR EXCHANGE

##### SECTION III. STATUTORY PROVISIONS

Section 13 of the Federal Reserve Act also provides that any member bank may accept drafts or bills of exchange drawn upon it having not more than three months' sight to run, exclusive of days of grace, drawn, under regulations to be prescribed by the Federal Reserve Board, by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions.

No member bank shall accept such drafts or bills of exchange for any one bank to an amount exceeding in the aggregate 10 per cent of the paid-up and unimpaired capital and surplus of the accepting bank unless the draft or bill of exchange is accompanied by documents conveying or securing title or by some other adequate security. No member bank shall accept such drafts or bills in an amount exceeding at any time in the aggregate one-half of its paid-up and unimpaired capital and surplus. This 50 per cent limit is separate and distinct from and not included in the limits placed upon the acceptance of drafts and bills of exchange as described under Article A of this regulation.

##### SECTION IV. REGULATIONS

Any member bank desiring to accept drafts drawn by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange shall first make an application to the Federal Reserve Board setting forth the usages of trade in the respective countries, dependencies, or insular possessions in which such banks or bankers are located.

If the Federal Reserve Board should determine that the usages of trade in such countries, depen-



dencies, or possessions require the granting of the acceptance facilities applied for, it will notify the applying bank of its approval and will also publish in the Federal Reserve Bulletin the name or names of those countries, dependencies, or possessions in which banks or bankers are authorized to draw on member banks whose applications have been approved for the purpose of furnishing dollar exchange.

The Federal Reserve Board reserves the right to modify or on 90 days' notice to revoke its approval either as to any particular member bank or as to any foreign country or dependency or insular possession of the United States in which it has authorized banks or bankers to draw on member banks for the purpose of furnishing dollar exchange.

## REGULATION D

### TIME DEPOSITS AND SAVINGS ACCOUNTS.

#### SECTION I. STATUTORY PROVISIONS

Section 19 of the Federal Reserve Act provides, in part, as follows:

"Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment, and all postal savings deposits."

#### SECTION II. TIME DEPOSITS. OPEN ACCOUNTS.

The term "time deposits, open accounts" shall be held to include all accounts, not evidenced by certificates of deposit or savings pass books, in respect to which a written contract is entered into with the depositor at the time the deposit is made that neither the whole nor any part of such deposit may be withdrawn by check or otherwise, except on a given date or on written notice which must be given by the depositor a certain specified number of days in advance, in no case less than 30 days.

#### SECTION III. SAVINGS ACCOUNTS

The term "savings accounts" shall be held to include those accounts of the bank in respect to which, by its printed regulations, accepted by the depositor at the time the account is opened—

(a) The pass book, certificate, or other similar form of receipt must be presented to the bank whenever a deposit or withdrawal is made, and

(b) The depositor may at any time be required by the bank to give notice of an intended withdrawal not less than 30 days before a withdrawal is made.

#### SECTION IV. TIME CERTIFICATES OF DEPOSIT

A "time certificate of deposit" is defined as an instrument evidencing the deposit with a bank, either with or without interest, of a certain sum specified on the face of the certificate payable in whole or in part to the depositor or on his order—

(a) On a certain date, specified on the certificate, not less than 30 days after the date of the deposit, or

(b) After the lapse of a certain specified time subsequent to the date of the certificate, in no case less than 30 days, or

(c) Upon written notice, which the bank may at its option require to be given a certain specified number of days, not less than thirty days, before the date of repayment, and

(d) In all cases only upon presentation of the certificate at each withdrawal for proper indorsement or surrender.

## REGULATION E

### PURCHASE OF WARRANTS.

#### SECTION I. STATUTORY REQUIREMENTS

Section 14 of the Federal Reserve Act reads in part as follows:

"Every Federal Reserve Bank shall have power—

(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes

or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board."

#### SECTION II. DEFINITIONS

Within the meaning of this regulation—

The term "warrant" shall be construed to mean "bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months."

The term "municipality" shall be construed to mean "State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage, and reclamation districts."

The term "net funded indebtedness" shall be construed to mean the legal gross indebtedness of the municipality (including the amount of any school district or other bonds which depend for their redemption upon taxes levied upon property within the municipality) less the aggregate of the following items:

(1) The amount of outstanding bonds or other debt obligations made payable from current revenues;

(2) The amount of outstanding bonds issued for the purpose of providing the inhabitants of a municipality with public utilities, such as waterworks, docks, electric plants, transportation facilities, etc.: *Provided*, That evidence is submitted showing that the income from such utilities is sufficient for maintenance, for payment of interest on such bonds, and for the accumulation of a sinking fund sufficient for their redemption at maturity;

(3) The amount of outstanding improvement bonds, issued under laws which provide for the levying of special assessments against abutting property in amounts sufficient to insure the payment of interest on the bonds and the redemption thereof at maturity: *Provided*, That such bonds are direct obligations of the municipality and included in the gross indebtedness of the municipality; and

(4) The total of all sinking funds accumulated for the redemption of the gross indebtedness of the municipality, except sinking funds applicable to bonds described in (1), (2), and (3) above.

#### SECTION III. CLASS OF WARRANTS ELIGIBLE FOR PURCHASE

Any Federal Reserve Bank may purchase warrants issued by a municipality in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues, provided—

(a) They are the general obligations of the entire municipality; it being intended to exclude as ineligible for purchase all such obligations as are payable from "local benefit" and "special assessment" taxes when the municipality at large is not directly or ultimately liable;

(b) They are issued in anticipation of taxes or revenues which are due and payable on or before the date of maturity of such warrants; but the Federal Reserve Board may waive this condition in specific cases. For the purposes of this regulation, taxes shall be considered as due and payable on the last day on which they may be paid without penalty;

(c) They are issued by a municipality—

(1) Which has been in existence for a period of ten years;

(2) Which for a period of ten years previous to the purchase has not defaulted for longer than 15 days in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it;

(3) Whose net funded indebtedness does not exceed 10 per centum of the valuation of its taxable property, to be ascertained by the last preceding valuation of property for the assessment of taxes.

#### SECTION IV. "EXISTENCE" AND "NONDEFAULT"

Warrants will be construed to comply with that part of Section III (c) relative to term of exist-

tence and nondefault, under the following conditions:

(1) Warrants issued by or in behalf of any municipality which was, subsequent to the issuance of such warrants, consolidated with or merged into an existing political division which meets the requirements of these regulations, will be deemed to be the warrants of such political division: *Provided*, That such warrants were assumed by such political division under statutes and appropriate proceedings the effect of which is to make such warrants general obligations of such assuming political division and payable, either directly or ultimately, without limitation to a special fund from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.

(2) Warrants issued by or in behalf of any municipality which was, subsequent to the issuance of such warrants, wholly succeeded by a newly organized political division whose term of existence, added to that of such original political division or of any other political division so succeeded, is equal to a period of ten years will be deemed to be warrants of such succeeding political division: *Provided*, That during such period none of such political divisions shall have defaulted for a period exceeding 15 days in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it: *And provided further*, That such warrants were assumed by such new political division under statutes and appropriate proceedings the effect of which is to make such warrants general obligations of such assuming political division and payable, either directly or ultimately, without limitation to a special fund, from the proceeds of taxes levied upon all the taxable real and personal property within its territorial limits.

(3) Warrants issued by or in behalf of any municipality which, prior to such issuance, became the successor of one or more, or was formed by the consolidation or merger of two or more, pre-existing political divisions, the term of existence of one or more of which, added to that of such succeeding or consolidated political division, is equal to a period of 10 years, will be deemed to be warrants of a political division which has been in existence for a period of 10 years: *Provided*, That during such period none of such original, succeeding, or consolidated political divisions shall have defaulted for a period exceeding 15 days in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it.

#### SECTION V. LIMITATIONS

(a) Except with the approval of the Federal Reserve Board, no Federal Reserve Bank shall purchase and hold an amount in excess of 25 per cent of the total amount of warrants outstanding at any time and issued in conformity with provisions of section 14 (b), above quoted, and actually sold by a municipality.

(b) Except with the approval of the Federal Reserve Board, the aggregate amount invested by any Federal Reserve Bank in warrants of all kinds shall not exceed at the time of purchase a sum equal to 10 per cent of the deposits kept by its member banks with such Federal Reserve Bank.

(c) Except with the approval of the Federal Reserve Board, the maximum amount which may be invested at the time of purchase by any Federal Reserve Bank in warrants of any single municipality shall be limited to the following percentages of the deposits kept in such Federal Reserve Bank by its member banks:

Five per cent of such deposits in warrants of a municipality of 50,000 population or over;

Three per cent of such deposits in warrants of a municipality of over 30,000 population, but less than 50,000;

One per cent of such deposits in warrants of a municipality of over 10,000 population, but less than 30,000.

(d) Any Federal Reserve Bank may purchase from any of its member banks warrants of any municipality, indorsed by such member bank, with waiver of demand, notice, and protest if such war-

rants comply with Sections III and V (b) of these regulations, except that where a period of 10 years is mentioned in III (c) hereof a period of 5 years shall be substituted for the purposes of this clause.

#### SECTION VI. WARRANTS OF SMALL MUNICIPALITIES

Warrants of a municipality of 10,000 population or less shall be purchased only with the special approval of the Federal Reserve Board.

The population of a municipality shall be determined by the last Federal or State census. Where it cannot be exactly determined the Federal Reserve Board will make special rulings.

#### SECTION VII. OPINION OF COUNSEL

Opinion of recognized counsel on municipal issues or of the regularly appointed counsel of the municipality as to the legality of the issue shall be secured and approved in each case by counsel for the Federal Reserve Bank.

### REGULATION F

#### TRUST POWERS OF NATIONAL BANKS.

##### SECTION I. STATUTORY PROVISIONS

The Federal Reserve Act as amended by the act of September 26, 1918, provides in part:

Sec. 11. The Federal Reserve Board shall be authorized and empowered:

(k) To grant by special permit to national banks, applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.

Whenever the laws of such State authorize or permit the exercise of any or all of the foregoing powers by State banks, trust companies, or other corporations which compete with national banks, the granting to and the exercise of such powers by national banks shall not be deemed to be in contravention of State or local law within the meaning of this Act.

National banks exercising any or all of the powers enumerated in this subsection shall segregate all assets held in any fiduciary capacity from the general assets of the bank and shall keep a separate set of books and records showing in proper detail all transactions engaged in under authority of this subsection. Such books and records shall be open to inspection by the State authorities to the same extent as the books and records of corporations organized under State law which exercise fiduciary powers, but nothing in this Act shall be construed as authorizing the State authorities to examine the books, records, and assets of the national bank which are not held in trust under authority of this subsection.

No national bank shall receive in its trust department deposits of current funds subject to check or the deposit of checks, drafts, bills of exchange, or other items for collection or exchange purposes. Funds deposited or held in trust by the bank awaiting investment shall be carried in a separate account and shall not be used by the bank in the conduct of its business unless it shall first set aside in the trust department United States bonds or other securities approved by the Federal Reserve Board.

In the event of the failure of such bank the owners of the funds held in trust for investment shall have a lien on the bonds or other securities so set apart in addition to their claim against the estate of the bank.

Whenever the laws of a State require corporations acting in a fiduciary capacity, to deposit securities with the State authorities for the protection of private or court trusts, national banks so acting shall be required to make similar deposits and securities so deposited shall be held for the protection of private or court trusts, as provided by the State law.

National banks in such cases shall not be required to execute the bond usually required of



individuals if State corporations under similar circumstances are exempt from this requirement.

National banks shall have power to execute such bond when so required by the laws of the State.

In any case in which the laws of a State require that a corporation acting as trustee, executor, administrator, or in any capacity specified in this section, shall take an oath or make an affidavit, the president, vice president, cashier, or trust officer of such national bank may take the necessary oath or execute the necessary affidavit.

It shall be unlawful for any national banking association to lend any officer, director, or employee any funds held in trust under the powers conferred by this section. Any officer, director, or employee making such loan, or to whom such loan is made, may be fined not more than \$5,000, or imprisoned not more than five years, or may be both fined and imprisoned, in the discretion of the court.

In passing upon applications for permission to exercise the powers enumerated in this subsection, the Federal Reserve Board may take into consideration the amount of capital and surplus of the applying bank, whether or not such capital and surplus is sufficient under the circumstances of the case, the needs of the community to be served, and any other facts and circumstances that seem to it proper, and may grant or refuse the application accordingly: *Provided*, That no permit shall be issued to any national banking association having a capital and surplus less than the capital and surplus required by State law of State banks, trust companies, and corporations exercising such powers.

#### SECTION II. APPLICATIONS

A national bank desiring to exercise any and all of the powers authorized by section 11 (k) of the Federal Reserve Act, as amended by the Act of September 26, 1918, shall make application to the Federal Reserve Board, on a form approved by said Board, for a special permit authorizing it to exercise such powers. In the case of an original application—that is, where the applying bank has never been granted the right to exercise any of the powers authorized by section 11 (k)—the application should be made on F. R. B. Form 61. In the case of a supplemental application—that is, where the applying bank has already been granted the right to exercise one or more of the powers authorized by section 11 (k)—the application should be made on F. R. B. Form 61-b. Both forms are made a part of this regulation and may be obtained from the Federal Reserve Board or any Federal Reserve Bank.

#### SECTION III. SEPARATE DEPARTMENTS

Every national bank permitted to act under this section shall establish a separate trust department, and shall place such department under the management of an officer or officers, whose duties shall be prescribed by the board of directors of the bank.

#### SECTION IV. CUSTODY OF TRUST SECURITIES AND INVESTMENTS

The securities and investments held in each trust shall be kept separate and distinct from the securities owned by the bank and separate and distinct one from another. Trust securities and investments shall be placed in the joint custody of two or more officers or other employees designated by the board of directors of the bank and all such officers and employees shall be bonded.

#### SECTION V. DEPOSIT OF FUNDS AWAITING INVESTMENT OR DISTRIBUTION

Funds received or held in the trust department of a national bank awaiting investment or distribution may be deposited in the commercial department of the bank to the credit of the trust department, provided that the bank first delivers to the trust department, as collateral security, United States bonds, or other readily marketable securities owned by the bank, which collateral security shall at all times be at least equal in market value to the amount of the funds so deposited.

#### SECTION VI. INVESTMENT OF TRUST FUNDS

(a) *Private trusts*.—Funds held in trust must be invested in strict accordance with the terms of the will, deed, or other instrument creating the trust. Where the instrument creating the trust contains provisions authorizing the bank, its officers, or its directors to exercise their discretion in the matter of investments, funds held in trust may be invested only in those classes of securities which are approved by the directors of the bank. Where the instrument creating the trust does not specify the character or class of investments to be made and does not expressly vest in the bank, its officers or its directors a discretion in the matter of investments, funds held in trust shall be invested in any securities in which corporate or individual fiduciaries in the State in which the bank is located may lawfully invest.

(b) *Court trusts*.—Except as hereinafter provided, a national bank acting as executor, administrator, or in any other fiduciary capacity, under appointment by a court of competent jurisdiction, shall make all investments under an order of that court, and copies of all such orders shall be filed and preserved with the records of the trust department of the bank. If the court by general order vests a discretion in the national bank to invest funds held in trust, or if under the laws of the State in which the bank is located corporate fiduciaries appointed by the court are permitted to exercise such discretion, the national bank so appointed may invest such funds in any securities in which corporate or individual fiduciaries in the State in which the bank is located may lawfully invest.

#### SECTION VII. BOOKS AND ACCOUNTS

All books and records of the trust department shall be kept separate and distinct from other books and records of the bank. All accounts opened shall be so kept as to enable the national bank at any time to furnish information or reports required by the Federal or State authorities, and such books and records shall be open to the inspection of such authorities.

#### SECTION VIII. EXAMINATIONS

Examiners appointed by the Comptroller of the Currency or designated by the Federal Reserve Board will be instructed to make thorough and complete audits of the cash, securities, accounts, and investments of the trust department of the bank at the same time that examination is made of the banking department.

#### SECTION IX. CONFORMITY WITH STATE LAWS

Nothing in these regulations shall be construed to give a national bank exercising the powers permitted under the provisions of section 11 (k) of the Federal Reserve Act, as amended, any rights or privileges in contravention of the laws of the State in which the bank is located within the meaning of that Act.

#### SECTION X. REVOCATION OF PERMITS

The Federal Reserve Board reserves the right to revoke permits granted under the provisions of section 11(k), as amended, in any case where in the opinion of the Board a bank has willfully violated the provisions of the Federal Reserve Act or of these regulations or the laws of any State relating to the operations of such bank when acting in any of the capacities permitted under the provisions of section 11 (k), as amended.

#### SECTION XI. CHANGES IN REGULATIONS

These regulations are subject to change by the Federal Reserve Board; provided, however, that no such change shall prejudice any obligation undertaken in good faith under regulations in effect at the time the obligation was assumed.

### REGULATION G

#### LOANS ON FARM LAND AND OTHER REAL ESTATE.

Section 24 of the Federal Reserve Act provides in part that—

Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated

within its Federal reserve district or within a radius of one hundred miles of the place in which such bank is located, irrespective of district lines, and may also make loans secured by improved and unencumbered real estate located within one hundred miles of the place in which such bank is located, irrespective of district lines; but no loan made upon the security of such farm land shall be made for a longer time than five years, and no loan made upon the security of such real estate as distinguished from farm land shall be made for a longer time than one year nor shall the amount of any such loan, whether upon such farm land or upon such real estate, exceed fifty per centum of the actual value of the property offered as security. Any such bank may make such loans, whether secured by such farm land or such real estate, in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

National banks not located in central reserve cities may, therefore, legally make loans secured by improved and unencumbered farm land or other real estate as provided by this section.

Certain conditions and restrictions must, however, be observed—

(a) There must be no prior lien on the land; that is, the lending bank must hold an absolute first mortgage or deed of trust.

(b) The amount of the loan must not exceed 50 per cent of the actual value of the land by which it is secured.

(c) The maximum amount of loans which a national bank may make on real estate, whether on farm land or on other real estate as distinguished from farm land, is limited under the terms of the Act to an amount not in excess of one-third of its time deposits at the time of the making of the loan, and not in excess of one-third of its average time deposits during the preceding calendar year: *Provided, however*, That if one-third of such time deposits as of the date of making the loan or one-third of the average time deposits for the preceding calendar year, is less than one-fourth of the capital and surplus of the bank as of the date of making the loan, the bank in such event shall have authority to make loans upon real estate under the terms of the Act to the extent of one-fourth of the bank's capital and surplus as of that date.

(d) Farm land to be eligible as security for a loan by a national bank must be situated within the Federal reserve district in which such bank is

nevertheless, at the end of the year, the maturing note may be renewed or extended for another year, and in order to obviate the necessity of making a new mortgage or deed of trust for each renewal the original mortgage or deed of trust may be so drawn in the first instance as to cover possible future renewals of the original note. Under no circumstances, however, must the bank obligate itself in advance to make such a renewal. It must in all cases preserve the right to require payment at the end of the year and to foreclose the mortgage should that action become necessary. The same principles apply to loans of longer maturities secured by farm lands.

(h) In order that real estate loans held by a bank may be readily classified, a statement signed by the officers making a loan and having knowledge of the facts upon which it is based must be attached to each note secured by a first mortgage on the land by which the loan is secured, certifying in detail as of the date of the loan that all of the requirements of law have been duly observed.

### REGULATION H

#### MEMBERSHIP OF STATE BANKS AND TRUST COMPANIES.

##### SECTION I. BANKS ELIGIBLE FOR MEMBERSHIP

1. *Incorporation.*—In order to be eligible for membership in a Federal Reserve Bank, a State bank or trust company must have been incorporated under a special or general law of the State or district in which it is located.

2. *Capital stock.*—Under the terms of section 9 of the Federal Reserve Act as amended, no applying bank can be admitted to membership in a Federal Reserve Bank unless—

(a) It possesses a paid-up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated, under the provisions of the National Bank Act, or

(b) It possesses a paid-up, unimpaired capital of at least 60 per cent of such amount, and, under penalty of loss of membership, complies with the rules and regulations herein prescribed by the Federal Reserve Board fixing the time within which and the method by which the unimpaired capital of such bank shall be increased out of net income to equal the capital required under (a).

In order to become a member of the Federal Reserve System, therefore, any State bank or trust company must have a minimum paid-up capital stock at the time it becomes a member, as follows:

If located in a city or town with a population of—	Minimum capital if admitted under clause (a)	Minimum capital if admitted under clause (b)
Not exceeding 3,000 inhabitants .....	\$25,000	\$15,000
Exceeding 3,000 but not exceeding 6,000 inhabitants.....	50,000	30,000
Exceeding 6,000 but not exceeding 50,000 inhabitants .....	100,000	60,000
Exceeding 50,000 inhabitants .....	200,000	120,000

located or within a radius of 100 miles of such bank irrespective of district lines.

(e) Real estate as distinguished from farm land to be eligible as security for a loan by a national bank must be located within a radius of 100 miles of such bank irrespective of district lines.

(f) The right of a national bank to "make loans" under section 24 includes the right to purchase or discount loans already made as well as the right to make such loans in the first instance: *Provided, however*, That no loan secured by farm land shall have a maturity of more than five years from the date on which it was purchased or made by the national bank and that no loan secured by other real estate shall have a maturity of more than one year from such date.

(g) Though no national bank is authorized under the provisions of section 24 to make a loan on the security of real estate, other than farm land, for a period exceeding one year,

Any bank admitted to membership under clause (b) must also, as a condition of membership, the violation of which will subject it to expulsion from the Federal Reserve System, increase its paid-up and unimpaired capital within five years after the approval of its application by the Federal Reserve Board to the amount required under (a). For the purpose of providing for such increase, every such bank shall set aside each year in a fund exclusively applicable to such capital increase not less than 50 per cent of its net earnings for the preceding year prior to the payment of dividends, and if such net earnings exceed 12 per cent of the paid-up capital of such bank, then all net earnings in excess of 6 per cent of the paid-up capital shall be carried to such fund, until such fund is large enough to provide for the necessary increase in capital. Whenever such fund shall be large enough to provide for the necessary increase in capital, or at such other time as the Federal Reserve Board may



require, such fund or as much thereof as may be necessary shall be converted into capital by a stock dividend or used in any other manner permitted by State law to increase the capital of such bank to the amount required under (a); *Provided, however*, That such bank may be excused in whole or in part from compliance with the terms of this paragraph if it increases its capital through the sale of additional stock; *Provided further*, That nothing herein contained shall be construed as requiring any such bank to violate any provision of State law, and in any case in which the requirements of this paragraph are inconsistent with the requirements of State law the requirements of this paragraph may be waived and the subject covered by a special condition of membership to be prescribed by the Federal Reserve Board.

#### SECTION II. APPLICATION FOR MEMBERSHIP

Any eligible State bank or trust company may make application on F. R. B. Form 83a, made a part of this regulation, to the Federal Reserve Board for an amount of capital stock in the Federal Reserve Bank of its district equal to 6 per cent of the paid-up capital stock and surplus of such State bank or trust company. This application must be forwarded direct to the Federal Reserve Agent of the district in which the applying bank or trust company is located and must be accompanied by Exhibits I, II, and III, referred to on page 1 of the application blank.

#### SECTION III. APPROVAL OF APPLICATION

In passing upon an application the Federal Reserve Board will consider especially—

1. The financial condition of the applying bank or trust company and the general character of its management;

2. Whether the corporate powers exercised by the applying bank or trust company are consistent with the purposes of the Federal Reserve Act; and

3. Whether the laws of the State or district in which the applying bank or trust company is located contain provisions likely to prevent proper compliance with the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board made in conformity therewith.

If, in the judgment of the Federal Reserve Board, an applying bank or trust company conforms to all the requirements of the Federal Reserve Act and these regulations, and is otherwise qualified for membership, the Board will issue a certificate of approval subject to such conditions as it may deem necessary to insure compliance with the act and these regulations. When the conditions imposed by the Board have been accepted by the applying bank or trust company the Board will issue a certificate of approval, whereupon the applying bank or trust company shall make a payment to the Federal Reserve Bank of its district of one-half of the amount of its subscription, *i. e.*, 3 per cent of the amount of its paid-up capital and surplus, and upon receipt of this payment the appropriate certificate of stock will be issued by the Federal Reserve Bank. The remaining half of its subscription shall be subject to call when deemed necessary by the Federal Reserve Board.

#### SECTION IV. POWERS AND RESTRICTIONS

Every State bank or trust company while a member of the Federal Reserve System—

1. Shall retain its full charter and statutory rights as a State bank or trust company, subject to the provisions of the Federal Reserve Act and to the regulations of the Federal Reserve Board;

2. Shall maintain such improvements and changes in its banking practice as may have been specifically required of it by the Federal Reserve Board as a condition of its admission and shall not lower the standard of banking then required of it;

3. Shall enjoy all the privileges and observe all those requirements of the Federal Reserve Act and of the regulations of the Federal Reserve Board made in conformity therewith which are applicable to State banks and trust companies which have become member banks; and

4. Shall comply at all times with any and all conditions of membership prescribed by the Federal

Reserve Board at the time of the admission of such member bank to the Federal Reserve System.

#### SECTION V. EXAMINATIONS AND REPORTS

Every State bank or trust company, while a member of the Federal Reserve System, shall be subject to examinations made by direction of the Federal Reserve Board or of the Federal Reserve Bank by examiners selected or approved by the Federal Reserve Board.

In order to avoid duplication, examinations of State banks and trust companies made by State authorities will be accepted in lieu of examinations by examiners selected or approved by the Board wherever these are satisfactory to the directors of the Federal Reserve Bank, and examiners from the staff of the Board or of the Federal Reserve Banks will, whenever desirable, be designated by the Board to act with the examination staff of the State in order that uniformity in the standard of examination may be assured.

Every State bank or trust company, while a member of the Federal Reserve System, shall be required to make in each year not less than three reports of condition on F. R. B. Form 105. Such reports shall be made to the Federal Reserve Bank of its district on call of such bank, on dates to be fixed by the Federal Reserve Board. They shall also make semiannual reports of earnings and dividends on F. R. B. Form 107. As dividends may be declared from time to time, each State bank or trust company member shall also furnish to the Federal Reserve Bank of its district a special notification of dividend declared on F. R. B. Form 107a. F. R. B. Forms 105, 107, and 107a are made a part of this regulation.

## REGULATION I

### INCREASE OR DECREASE OF CAPITAL STOCK OF FEDERAL RESERVE BANKS AND CANCELLATION OF OLD AND ISSUE OF NEW STOCK CERTIFICATES

#### SECTION I. INCREASE OF CAPITAL STOCK

(a) *New national banks.*—Each new national bank, while in process of organization (including each nonmember State bank converting into a national bank,\* while in process of such conversion) shall file with the Federal Reserve Bank of its district an application to the Federal Reserve Board on F. R. B. Form 30 (or as to a nonmember State bank converting into a national bank, on F. R. B. Form 30a), made a part of this regulation, for an amount of capital stock of the Federal Reserve Bank of its district equal to 6 per cent of the paid-up capital stock and surplus of such new national bank. Such application shall be forwarded promptly to the Federal Reserve Board, and if it is found to be in proper form the Federal Reserve Board will grant its approval effective if and when the Comptroller of the Currency issues to such bank his certificate of authority to commence business. If its application is approved, the applying bank shall thereupon make a payment to the Federal Reserve Bank of its district of one-half of the amount of its subscription, *i. e.*, 3 per cent of the amount of its paid-up capital and surplus; and upon receipt of this payment the Federal Reserve Bank will issue a receipt therefor, place the amount in a suspense account, and notify the

\* Whenever any State member bank is converted into a national bank under section 5154 of the Revised Statutes, as amended by section 8 of the Federal Reserve Act, it may continue to hold as a national bank its shares of Federal Reserve Bank stock previously held as a State bank, and need not file any application for Federal Reserve Bank stock, unless the aggregate amount of its capital and surplus is increased, in which event it should file an application for additional stock, as provided in Section I (c). The certificate of stock issued in the old name of the member bank, however, should be surrendered and canceled, and a new certificate should be issued in lieu thereof, in the new name of the member bank, as provided in Section III.

Federal Reserve Board that it has been received. When the Comptroller of the Currency issues to such applying bank his certificate of authority to commence business the Federal Reserve Bank shall issue a stock certificate to the applying bank, and the capital stock of the Federal Reserve Bank represented by such certificate shall be considered as issued as of the date upon which the Comptroller of the Currency issues his certificate of authority to commence business. The remaining half of the subscription of the applying bank shall be subject to call when deemed necessary by the Federal Reserve Board.

(b) *State banks becoming members.*—Any State bank or trust company desiring to become a member of the Federal Reserve System shall make application as provided in Regulation H, and when such application has been approved by the Federal Reserve Board and all requirements of Regulation H have been complied with the Federal Reserve Bank shall issue an appropriate certificate of stock as provided in Regulation H.

(c) *Increase of capital or surplus by member banks.*—Whenever any member bank shall increase the aggregate amount of its paid-up capital stock and surplus, it shall file with the Federal Reserve Bank of which it is a member an application on F. R. B. Form 56, made a part of this regulation, for an additional amount of the capital stock of the Federal Reserve Bank of its district equal to 6 per cent of such increase. After such application has been approved by the Federal Reserve Agent and by the Federal Reserve Board, the applying member bank shall pay to the Federal Reserve Bank of its district one-half of the amount of its additional subscription, and when this amount has been paid the appropriate certificate of stock shall be issued by the Federal Reserve Bank. The remaining half of such additional subscription shall be subject to call when deemed necessary by the Federal Reserve Board.

(d) *Consolidation of member banks.*—Whenever two or more member banks consolidate and such consolidation results in the consolidated bank acquiring by operation of law\* the Federal Reserve Bank stock owned by the other consolidating bank or banks, and which also results in the consolidated bank having an aggregate capital and surplus in excess of the aggregate capital and surplus of the consolidating member banks, such consolidated bank shall file an application for additional stock, as provided in Section I (c).

(e) *Certifying increases of Federal Reserve Bank stock.*—Whenever the capital stock of any Federal Reserve Bank shall be increased the board of directors of such Federal Reserve Bank shall

\* Section 5 of the Federal Reserve Act provides that "Shares of the capital stock of Federal Reserve Banks owned by member banks shall not be transferred or hypothecated." This provision prevents a transfer of Federal Reserve Bank stock by purchase, but does not prevent a transfer by operation of law. When there is a merger of member banks involving the liquidation of one of such banks and the purchasing of the assets of the liquidating bank by the bank continuing in existence, it is necessary for the liquidating bank to surrender its Federal Reserve Bank stock and for the purchasing bank to apply for new stock. On the other hand, if member banks consolidate, under a statute which does not require the liquidation of any of the consolidating banks, and the assets and obligations of the consolidating banks are transferred to the consolidated bank by operation of law, the consolidated bank becomes the owner of the Federal Reserve Bank stock of the consolidating banks as soon as the consolidation takes effect and such stock technically need not be surrendered. The certificates of stock issued in the names of the consolidating banks, however, should be surrendered and canceled, and a new certificate should be issued in lieu thereof, in the new name of the consolidated bank, as provided in Section III. A consolidation of national banks under the Act of Congress entitled "An Act to provide for the consolidation of national banking associations," approved November 7, 1918, meets all of these conditions.

certify such increase to the Comptroller of the Currency on F. R. B. Form 58, which is made a part of this regulation. Such certifications shall be made quarterly as of the last days of December, March, June, and September of each year. A duplicate copy of each certificate shall be forwarded to the Federal Reserve Board.

#### SECTION II. DECREASE OF CAPITAL STOCK

(a) *Reduction of capital by member bank.*—Whenever a member bank reduces the amount of its paid-up capital stock and, in the case of reduction of the paid-up capital of a national bank, such reduction has been approved by the Comptroller of the Currency and by the Federal Reserve Board in accordance with the provisions of section 28 of the Federal Reserve Act, it shall file with the Federal Reserve Bank of which it is a member an application for the surrender and cancellation of stock on F. R. B. Form 60, which is made a part of this regulation. When this application has been approved by the Federal Reserve Agent and the Federal Reserve Board, the Federal Reserve Bank shall accept and cancel the stock which the applying bank is entitled to surrender and shall refund to the member bank the proportionate amount due such bank on account of the stock canceled.

(b) *Insolvency of member bank.*—Whenever a member bank shall be declared insolvent and a receiver appointed by the proper authorities, such receiver shall, within six months from the date of his appointment, file with the Federal Reserve Bank of which the insolvent bank is a member an application on F. R. B. Form 87, which is made a part of this regulation, for the surrender and cancellation of the stock held by such insolvent member bank, and for the refund of all balances due to it. If the receiver shall fail to make such application within the time specified, the Federal Reserve Agent shall report the facts to the Federal Reserve Board with a recommendation as to the action to be taken, whereupon the Federal Reserve Board will either issue an order to cancel such stock or, if the circumstances warrant it, grant the receiver additional time in which to file such an application. Upon approval of such an application by the Federal Reserve Agent and the Federal Reserve Board, or upon the issuance of such an order by the Federal Reserve Board, the Federal Reserve Bank shall cancel such stock and shall adjust accounts between the member bank and the Federal Reserve Bank by applying to any indebtedness of the insolvent member bank to such Federal Reserve Bank all cash-paid subscriptions made by it on the stock canceled with one-half of one per cent per month from the period of last dividend, if earned, not to exceed the book value thereof, and the balance, if any, shall be paid to the duly authorized receiver of such insolvent member bank.

(c) *Voluntary liquidation of member bank.*—Whenever a member bank goes into voluntary liquidation and a liquidating agent is appointed, such agent shall, within six months from the date of his appointment, file with the Federal Reserve Bank of which the liquidating bank is a member an application on F. R. B. Form 86, if a national bank, and on F. R. B. Form 143, if a State bank, which forms are made a part of this regulation, for the surrender and cancellation of the stock held by it and for the refund of all balances due to such liquidating member bank. If the liquidating agent shall fail to make such application within the time specified, the Federal Reserve Agent shall report the facts to the Federal Reserve Board with a recommendation as to the action to be taken, whereupon the Federal Reserve Board will either issue an order to cancel such stock, or, if the circumstances warrant it, grant the liquidating agent additional time in which to file such an application. Upon approval of such an application by the Federal Reserve Agent and the Federal Reserve Board, or upon the issuance of such an order by the Federal Reserve Board, the Federal Reserve Bank shall cancel such stock and shall adjust accounts between the liquidating member bank and the Federal Reserve Bank by applying to the indebtedness of the liquidating member bank



to such Federal Reserve Bank all cash-paid subscriptions made by it on the stock canceled with one-half of one per cent per month from the period of last dividend, if earned, not to exceed the book value thereof, and the balance, if any, shall be paid to the duly authorized liquidating agent of such liquidating member bank.

(d) *Consolidation of member banks.*—Whenever there is a consolidation of two or more member banks which results in the consolidated bank acquiring by operation of law (see note 2 on p. 25) the Federal Reserve Bank stock owned by the other consolidating banks, and which also results in the consolidated bank having a paid-up capital less than the aggregate paid-up capital of the consolidating member banks, the consolidated bank shall file with the Federal Reserve Bank of which it is a member an application for the surrender and cancellation of stock on F. R. B. Form 60a, which is made a part of this regulation. Upon the approval of this application by the Federal Reserve Agent and the Federal Reserve Board, the Federal Reserve Bank shall accept and cancel the stock which the applying bank is entitled to surrender, and shall refund to the applying bank the proportionate amount due such bank on account of the stock canceled.

(e) *Certifying reductions of Federal Reserve Bank Stock.*—All reductions of the capital stock of a Federal Reserve Bank shall, in accordance with the provisions of section 6 of the Federal Reserve Act, be certified to the Comptroller of the Currency by the board of directors of such Federal Reserve Bank on F. R. B. Form 59, which is made a part of this regulation. Such certifications shall be made quarterly as of the last days of December, March, June, and September of each year. A duplicate copy of each certificate shall be forwarded to the Federal Reserve Board.

#### SECTION III. CANCELLATION OF OLD AND ISSUE OF NEW STOCK CERTIFICATES

Whenever a member bank changes its name or, by consolidation with another member bank acquires by operation of law (see note 2 on page 25) the Federal Reserve Bank stock previously held by such other member bank, it shall surrender to the Federal Reserve Bank the certificate of Federal Reserve bank stock which was issued to it under its old name, or which was issued to such other member bank. The certificate so surrendered shall be indorsed by the member bank surrendering it or by the member bank to which it was originally issued and shall be accompanied by proper proof of the change of name or consolidation. Upon receipt of such certificate of stock so indorsed, together with such proof, the Federal Reserve Bank shall cancel the certificate so surrendered and shall issue in lieu thereof to and in the name of the member bank surrendering it a new certificate for the number of shares represented by the certificate so surrendered, or if the member bank is entitled to surrender some of the stock which is represented by the surrendered certificate, and an application for the surrender and cancellation of such stock is at the same time made in accordance with this regulation, the new certificate shall be for the number of shares represented by the surrendered certificate less the number of shares canceled pursuant to such application. All cases where certificates of stock are surrendered and new certificates issued in lieu thereof and in a different name shall be reported to the Federal Reserve Board by the Federal Reserve Agent.

### REGULATION J

#### CHECK CLEARING AND COLLECTION.

##### SECTION I. STATUTORY PROVISIONS

Section 16 of the Federal Reserve Act authorizes the Federal Reserve Board to require each Federal Reserve Bank to exercise the functions of a clearing house for its member banks, and section 13 of the Federal Reserve Act, as amended by the act approved June 21, 1917, authorizes each Federal Reserve Bank to receive from any non-member bank or trust company, solely for the purposes of exchange or of collection, deposits

of current funds in lawful money, national-bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills, provided such nonmember bank or trust company maintains with its Federal Reserve Bank a balance sufficient to offset the items in transit held for its account by the Federal Reserve Bank.

##### SECTION II. GENERAL REQUIREMENTS

In pursuance of the authority vested in it under these provisions of law, the Federal Reserve Board, desiring to afford both to the public and to the various banks of the country a direct, expeditious, and economical system of check collection and settlement of balances, has arranged to have each Federal Reserve Bank exercise the functions of a clearing house for such of its member banks as desire to avail themselves of its privileges and such nonmember State banks and trust companies as may maintain with the Federal Reserve Bank balances sufficient to qualify them under the provisions of section 13 to send items to Federal Reserve Banks for purposes of exchange or of collection. Such nonmember State banks and trust companies will hereinafter be referred to as non-member clearing banks.

Each Federal Reserve Bank shall exercise the functions of a clearing house under the general terms and conditions hereinafter set forth.

##### SECTION III. CHECKS RECEIVED FOR COLLECTION

(a) Each Federal Reserve Bank will receive at par from its member banks and from nonmember clearing banks in its district, checks<sup>1</sup> drawn on all member and nonmember clearing banks and on all other nonmember banks which agree to remit at par in acceptable funds through the Federal Reserve Bank of their district.

(b) Each Federal Reserve Bank will receive at par from other Federal Reserve Banks, and from all member and nonmember clearing banks in other Federal Reserve Districts authorized to route direct for the credit of their accounts with their respective Federal Reserve Banks, checks drawn upon all member and nonmember clearing banks of its district and upon all other nonmember banks of its district which agree to remit at par in acceptable funds.

(c) No Federal Reserve Bank shall receive on deposit or for collection any check drawn on any nonmember bank which refuses to remit at par in acceptable funds.

(d) Whenever a Federal Reserve Bank receives on deposit or for collection a check drawn by, indorsed by, or emanating from, any nonmember bank which refuses to remit at par in acceptable funds, it shall make a charge for the service of collecting such check of one-tenth of one per cent, the minimum charge to be 10 cents for each item.

##### SECTION IV. TIME SCHEDULE AND AVAILABILITY OF CREDITS

Each Federal Reserve Bank will publish a time schedule showing the time at which any item sent to it will be counted as reserve and become available to meet checks drawn. For all checks received, the sending bank will be given immediate credit, or deferred credit, in accordance with such time schedule, and as provided below.

For all such checks as are received for immediate credit in accordance with such time schedule, immediate credit, subject to final payment, will be given upon the books of the Federal Reserve Bank at full face value in the reserve account or clearing account upon day of receipt, and the proceeds will at once be counted as reserve and become available to meet checks drawn.

For all such checks as are received for deferred credit in accordance with such time schedule, deferred credit, subject to final payment, will be entered upon the books of the Federal Reserve Bank at full face value, but the proceeds will not be counted as reserve nor become available to

<sup>1</sup> A check is generally defined as a draft or order upon a bank or banking house, purporting to be drawn upon a deposit of funds, for the payment at all events of a certain sum of money to a certain person therein named, or to him or his order, or to bearer, and payable on demand.

meet checks drawn until such time as may be specified in such time schedule, at which time credit will be transferred from the deferred account to the reserve account or clearing account and will then be counted as reserve and become available to meet checks drawn.

#### SECTION V. MANNER OF COLLECTION

The Federal Reserve Board hereby authorizes, and each member and nonmember clearing bank will be required to authorize, the Federal Banks to handle checks received on deposit or for collection as follows:

(1) A Federal Reserve Bank will act as agent only and will assume no liability except for its own negligence and its guaranty of prior indorsements.

(2) A Federal Reserve Bank is authorized to present or send checks for payment in cash or exchange draft direct to the bank on which they are drawn or at which they are payable, or to forward them to any suitably selected subagent with authority to present or send them for payment in cash or exchange draft direct to the bank on which they are drawn or at which they are payable.

(3) Checks received by a Federal Reserve Bank on its member or nonmember clearing banks will be forwarded or presented direct to such banks, and such banks will be required to remit therefor at par in funds acceptable to the Federal Reserve Bank, or to authorize the Federal Reserve Bank to charge their reserve accounts or clearing accounts; provided, however, that in case such remittance or authorization is not received by the Federal Reserve Bank from any such bank at the expiration of the agreed transit time between the Federal Reserve Bank and such bank, the Federal Reserve Bank reserves the right to charge such items to the reserve account or clearing account of such bank at the expiration of such time.

(4) Checks received by a Federal Reserve Bank payable in other districts will be forwarded to the Federal Reserve Bank of the district in which such items are payable.

(5) A Federal Reserve Bank will charge back the amount of any check for which payment either in cash or in the proceeds of an exchange draft has not actually been received, regardless of whether or not the check itself can be returned.

#### SECTION VI. PENALTIES FOR DEFICIENCIES IN RESERVES

(a) *Statutory provisions.*—Section 19 of the Federal Reserve Act provides that—

The required balance carried by a member bank with a Federal Reserve Bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: *Provided, however,* That no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored.

(b) *Computation of reserves.*—Items can not be counted as part of the minimum reserve balance to be carried by a member bank with its Federal Reserve Bank until such time as may be specified in the appropriate time schedule referred to in Section IV. If a member bank draw against items before such time, the draft will be charged against its reserve balance if such balance be sufficient in amount to pay it; but any resulting impairment of reserve balances will be subject to all the penalties provided by the Act.

(c) *Basic penalty.*—Inasmuch as it is essential that the law in respect to the maintenance by member banks of the required minimum reserve balance shall be strictly complied with, the Federal Reserve Board, under authority vested in it by section 19 of the Federal Reserve Act, hereby prescribes a basic penalty for deficiencies in reserves according to the following rules:

1. Deficiencies in reserve balances of member banks in central reserve and reserve cities will be computed on the basis of average daily net deposit balances covering a weekly period of seven days. Deficiencies in reserve balances of other member banks will be computed on the basis of average

daily net deposit balances covering a semimonthly period.

2. Penalties for deficiencies in reserves will be assessed monthly on the basis of average daily deficiencies during each of the reserve computation periods ending in the preceding month.

3. A basic rate of 2 per cent per annum above the Federal Reserve Bank discount rate on 90-day commercial paper will be assessed as a penalty on deficiencies in reserves of member banks.

(d) *Progressive penalty.*—The Federal Reserve Board will also prescribe for any Federal Reserve District, upon the application of the Federal Reserve Bank of that district, an additional progressive penalty for continued deficiencies in reserves, in accordance with the following rules:

1. When a member bank in a central reserve or reserve city has had an average deficiency in reserves for six consecutive weekly periods, a progressive penalty, increasing at the rate of one-fourth of one per cent for each week thereafter during which the average reserve balance is deficient, will be assessed on weekly deficiencies until the required reserve has been restored and maintained for four consecutive weekly periods, provided that the maximum penalty charged will not exceed 10 per cent.

2. When a member bank outside of a central reserve or reserve city has had an average deficiency in reserves for three consecutive semimonthly periods, a progressive penalty, increasing at the rate of one-half of one per cent for each half month thereafter during which the average reserve balance is deficient, will be assessed on semimonthly deficiencies until the required reserve has been restored and maintained for two consecutive semimonthly periods, provided that the maximum penalty charged will not exceed 10 per cent.

#### SECTION VII. OTHER RULES AND REGULATIONS

Any further requirements that the Board may deem necessary will be set forth by the Federal Reserve Banks in their letters of instruction to their member and nonmember clearing banks. Each Federal Reserve Bank will also promulgate rules and regulations governing the details of its operations as a clearing house, such rules and regulations to be binding upon all member and nonmember banks which are clearing through the Federal Reserve Bank.

### REGULATION K

#### BANKING CORPORATIONS AUTHORIZED TO DO FOREIGN BANKING BUSINESS UNDER THE TERMS OF SECTION 25 (a) OF THE FEDERAL RESERVE ACT.

##### I. ORGANIZATION

Any number of natural persons, not less in any case than five, may form a Corporation\* under the provisions of section 25 (a) for the purpose of engaging in international or foreign banking or other international or foreign financial operations or in banking or other financial operations in a dependency or insular possession of the United States either directly or through the agency, ownership, or control of local institutions in foreign countries or in such dependences or insular possessions.

##### II. ARTICLES OF ASSOCIATION

Any persons desiring to organize a corporation for any of the purposes defined in section 25 (a) shall enter into articles of association (see F. R. B. Form 151 which is suggested as a satisfactory form of articles of association) which shall specify in general terms the objects for which the Corporation is formed, and may contain any other provisions not inconsistent with law which the Corporation may see fit to adopt for the regulation of its business and the conduct of its affairs. The articles of association shall be signed by each per-

\* Whenever these regulations refer to a Corporation spelled with a capital C, they relate to a corporation organized under section 25 (a) of the Federal Reserve Act.



son intending to participate in the organization of the Corporation and when signed shall be forwarded to the Federal Reserve Board in whose office they shall be filed.

### III. ORGANIZATION CERTIFICATE

All of the persons signing the articles of association shall under their hands make an organization certificate on F. R. B. Form 152, which is made a part of this regulation, and which shall state specifically:

First. The name assumed by the Corporation.  
Second. The place or places where its operations are to be carried on.

Third. The place in the United States where its home office is to be located.

Fourth. The amount of its capital stock and the number of shares into which it shall be divided.

Fifth. The names and places of business or residences of persons executing the organization certificate and the number of shares to which each has subscribed.

Sixth. The fact that the certificate is made to enable the persons subscribing the same and all other persons, firms, companies, and corporations who or which may thereafter subscribe to or purchase shares of the capital stock of such Corporation to avail themselves of the advantages of this section.

The persons signing the organization certificate shall acknowledge the execution thereof before a judge of some court or notary public who shall certify thereto under the seal of such court or notary. Thereafter the certificate shall be forwarded to the Federal Reserve Board to be filed in its office.

### IV. TITLE

Inasmuch as the name of the Corporation is subject to the approval of the Federal Reserve Board, a preliminary application for that approval should be filed with the Federal Reserve Board on F. R. B. Form 150, which is made a part of this regulation. This application should state merely that the organization of a Corporation under the proposed name is contemplated and may request the approval of that name and its reservation for a period of 30 days. No Corporation which issues its own bonds, debentures, or other such obligations will be permitted to have the word "bank" as a part of its title. No Corporation which has the word "Federal" in its title will be permitted also to have the word "bank" a part of its title. So far as possible the title of the Corporation should indicate the nature or reason of the business contemplated and should in no case resemble the name of any other corporation to the extent that it might result in misleading or deceiving the public as to its identity, purpose, connection, or affiliations.

### V. AUTHORITY TO COMMENCE BUSINESS

After the articles of association and organization certificate have been made and filed with the Federal Reserve Board, and after they have been approved by the Federal Reserve Board and a preliminary permit to begin business has been issued by the Federal Reserve Board, the association shall become and be a body corporate, but none of its powers except such as are incidental and preliminary to its organization shall be exercised until it has been formally authorized by the Federal Reserve Board by a final permit generally to commence business.

Before the Federal Reserve Board will issue its final permit to commence business, the president or cashier, together with at least three of the directors, must certify (a) that each director elected is a citizen of the United States; (b) that a majority of the shares of stock is owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States; and (c) that of the authorized capital stock specified in the articles of association at least 25 per cent has been paid in cash and that each shareholder has individually paid in cash at least 25 per cent of his stock sub-

scription. Thereafter the cashier shall certify to the payment of the remaining installments as and when each is paid in, in accordance with law.

### VI. CAPITAL STOCK

No Corporation may be organized under the terms of section 25 (a) with a capital stock of less than \$2,000,000. The par value of each share of stock shall be specified in the articles of association, and no Corporation will be permitted to issue stock of no par value. If there is more than one class of stock, the name and amount of each class and the obligations, rights, and privileges attaching thereto shall be set forth fully in the articles of association. Each class of stock shall be so named as to indicate to the investor as nearly as possible what is its character and to put him on notice of any unusual attributes.

### VII. TRANSFERS OF STOCK

Section 25 (a) provides in part that—

A majority of the shares of capital stock of any such corporation shall at all times be held and owned by the citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States.

In order to insure compliance at all times with the requirements of this provision after the organization of the Corporation, shares of stock shall be issuable and transferable only on the books of the Corporation. Every application for the issue or transfer of stock shall be accompanied by an affidavit of the party to whom it is desired to issue or transfer stock, or by his or its duly authorized agent, stating—

*In the case of an individual.*—(a) Whether he is or is not a citizen of the United States and if a citizen of the United States, whether he is a natural born citizen or a citizen by naturalization, and if naturalized, whether he remains for any purpose in the allegiance of any foreign sovereign or state; (b) Whether there is or is not any arrangement under which he is to hold the shares or any of the shares which he desires to have issued or transferred to him, in trust for or in any way under the control of any foreign state or any foreigner, foreign corporation, or any corporation under foreign control, and if so, the nature thereof.

*In the case of a corporation.*—(a) Whether such corporation is or is not chartered under the laws of the United States or of a State of the United States. If it is not, no further declaration is necessary, but if it is, it must also be stated (b) whether the controlling interest in such corporation is or is not owned by citizens of the United States, and (c) whether there is or is not any arrangement under which such corporation will hold the shares or any of the shares if issued or transferred to such corporation, in trust for or in any way under the control of any foreign state or any foreigner or foreign corporation or any corporation under foreign control, and if so, the nature thereof.

*In the case of a firm or company.*—(a) Whether the controlling interest in such firm or company is or is not owned by citizens of the United States and, if so, (b) whether there is or is not any arrangement under which such firm or company will hold the shares or any of the shares if issued or transferred to such firm or company in trust for or in any way under the control of any foreign state or any foreigner or foreign corporation or any corporation under foreign control and if so, the nature thereof.

The board of directors of the Corporation, whether acting directly or through an agent, may, before making any issue or transfer of stock, require such further evidence as in their discretion they may think necessary in order to determine whether or not the issue or transfer of the stock would result in a violation of the law. No issue or transfer of stock which would cause 50 per cent or more of the total amount of stock issued or outstanding to be held contrary to the provisions of the law or these regulations shall be made upon the books of the Corporation. The decision of the

board of directors in each case shall be final and conclusive and not subject to any question by any person, firm, or corporation on any ground whatsoever.

If at any time by reason of the fact that the holder of any shares of the Corporation ceases to be a citizen of the United States, or, in the opinion of the board of directors, becomes subject to the control of any foreign state or foreigner or foreign corporation or corporation under foreign control, 50 per cent or more of the total amount of capital stock issued or outstanding is held contrary to the provisions of the law or these regulations, the board of directors may, when apprised of that fact, forthwith serve on the holder of the shares in question a notice in writing requiring such holder within two months to transfer such shares to a citizen of the United States, or to a firm, company, or corporation, approved by the board of directors as an eligible stockholder. When such notice has been given by the board of directors the shares of stock so held shall cease to confer any vote until they have been transferred as required above and if on the expiration of two months after such notice the shares shall not have been so transferred, the shares shall be forfeited to the Corporation.

The board of directors shall prescribe in the by-laws of the Corporation appropriate regulations for the registration of the shares of stock in accordance with the terms of the law and these regulations. The by-laws must also provide that the certificates of stock issued by the Corporation shall contain provisions sufficient to put the holder on notice of the terms of the law and the regulations of the Federal Reserve Board defining the limitations upon the rights of transfer.

#### VIII. OPERATIONS IN THE UNITED STATES

No Corporation shall carry on any part of its business in the United States except such as shall be incidental to its international or foreign business. Agencies may be established in the United States with the approval of the Federal Reserve Board for specific purposes, but not generally to carry on the business of the Corporation.

#### IX. INVESTMENTS IN THE STOCK OF OTHER CORPORATIONS

It is contemplated by the law that a Corporation shall conduct its business abroad either directly or indirectly through the ownership or control of corporations, and it is accordingly provided that a Corporation may invest in the stock, or other certificates of ownership, of any other corporation organized—

- (a) Under the provisions of section 25 (a) of the Federal Reserve Act;
- (b) Under the laws of any foreign country or a colony or dependency thereof;
- (c) Under the laws of any State, dependency, or insular possession of the United States;

provided, first, that such other corporation is not engaged in the general business of buying or selling goods, wares, merchandise, or commodities in the United States; and second, that it is not transacting any business in the United States except such as is incidental to its international or foreign business.

Except with the approval of the Federal Reserve Board, no Corporation shall invest an amount in excess of 15 per cent of its capital and surplus in the stock of any corporation engaged in the business of banking, or an amount in excess of 10 per cent of its capital and surplus in the stock of any other corporation.

No Corporation shall purchase any stock in any other corporation organized under the terms of section 25 (a) or under the laws of any State, which is in substantial competition therewith, or which holds stock or certificates of ownership in corporations which are in substantial competition with the purchasing Corporation. This restriction, however, does not apply to corporations organized under foreign laws.

#### X. BRANCHES

No Corporation shall establish any branches except with the approval of the Federal Reserve

Board, and in no case shall any branch be established in the United States.

#### XI. ISSUE OF DEBENTURES, BONDS, AND PROMISSORY NOTES

*Approval of the Federal Reserve Board.*—No Corporation shall make any public or private issue of its debentures, bonds, notes, or other such obligations without the approval of the Federal Reserve Board, but this restriction shall not apply to notes issued by the Corporation in borrowing from banks or bankers for temporary purposes not to exceed one year. The approval of the Federal Reserve Board will be based solely upon the right of the Corporation to make the issue under the terms of this regulation and shall not be understood in any way to imply that the Federal Reserve Board has approved or passed upon the merits of such obligations as an investment. The Federal Reserve Board will consider the general character and scope of the business of the Corporation in determining the amount of debentures, bonds, notes, or other such obligations of the Corporation which may be issued by it.

*Application.*—Every application for the approval of any such issue by a Corporation shall be accompanied by (1) a statement of the condition of the Corporation in such form and as of such date as the Federal Reserve Board may require; (2) a detailed list of the securities by which it is proposed to secure such issue, stating their maturities, indorsements, guaranties, or collateral, if any, and in general terms the nature of the transactions upon which they were based; and (3) such other data as the Federal Reserve Board may from time to time require.

*Advertisements.*—No circular, letter, or other document advertising the issue of the obligations of a Corporation shall state or contain any reference to the fact that the Federal Reserve Board has granted its approval of the issue to which the advertisement relates. This requirement will be enforced strictly in order that there may be no possibility of the public's misconstruing such a reference to be an approval by the Federal Reserve Board of the merits or desirability of the obligations as an investment.

#### XII. SALE OF FOREIGN SECURITIES.

*Approval of the Federal Reserve Board.*—No Corporation shall offer for sale any foreign securities with its indorsement or guaranty, except with the approval of the Federal Reserve Board, but such approval will be based solely upon the right of the Corporation to make such a sale under the terms of this regulation and shall not be understood in any way to imply that the Federal Reserve Board has approved or passed upon the merits of such securities as an investment.

*Application.*—Every application for the approval of such sale shall be accompanied by a statement of the character and amount of the securities proposed to be sold, their indorsements, guaranties, or collateral, if any, and such other data as the Federal Reserve Board may from time to time require.

*Advertisements.*—No circular, letter, or other document advertising the sale of foreign securities by a Corporation with its indorsement or guaranty shall state or contain any reference to the fact that the Federal Reserve Board has granted its approval of the sale of the securities to which the advertisement relates.

#### XIII. ACCEPTANCES.

*Kinds.*—Any Corporation may accept (1) drafts and bills of exchange drawn upon it which grow out of transactions involving the importation or exportation of goods, and (2) drafts and bills of exchange which are drawn by banks or bankers located in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in such countries, dependencies, and possessions, provided, however, that, except with the approval of the Federal Reserve Board and subject to such limitations as it may prescribe, no Corporation shall exercise its power to accept drafts or bills of exchange if at the time such drafts or bills are presented for acceptance



it has outstanding any debentures, bonds, notes, or other such obligations issued by it.

**Maturity.**—Except with the approval of the Federal Reserve Board, no Corporation shall accept any draft or bill of exchange which grows out of a transaction involving the importation or exportation of goods with a maturity in excess of six months, or shall accept any draft or bill of exchange drawn for the purpose of furnishing dollar exchange with a maturity in excess of three months.

**Limitations.**—(1) Individual drawers: No acceptances shall be made for the account of any one drawer in an amount aggregating at any time in excess of 10 per cent of the subscribed capital and surplus of the Corporation, unless the transaction be fully secured or represents an exportation or importation of commodities and is guaranteed by a bank or banker of undoubted solvency. (2) Aggregates: Whenever the aggregate of acceptances outstanding at any time (a) exceeds the amount of the subscribed capital and surplus, 50 per cent of all the acceptances in excess of the amount shall be fully secured; or (b) exceeds twice the amount of the subscribed capital and surplus, all the acceptances outstanding in excess of such amount shall be fully secured. (The Corporation shall elect whichever requirement (a) or (b) calls for the smaller amount of secured acceptances.) In no event shall any Corporation have outstanding at any one time acceptances drawn for the purpose of furnishing dollar exchange in an amount aggregating more than 50 per cent of its subscribed capital and surplus.

**Reserves.**—Against all acceptances outstanding which mature in 30 days or less a reserve of at least 15 per cent shall be maintained, and against all acceptances outstanding which mature in more than 30 days a reserve of at least 3 per cent shall be maintained. Reserves against acceptances must be in liquid assets of any or all of the following kinds, (1) cash; (2) balances with other banks; (3) bankers' acceptances; and (4) such securities as the Federal Reserve Board may from time to time permit.

#### XIV. DEPOSITS.

**In the United States.**—No Corporation shall receive in the United States any deposits except such as are incidental to or for the purpose of carrying out transactions in foreign countries or dependencies of the United States where the Corporation has established agencies, branches, correspondents, or where it operates through the ownership or control of subsidiary corporations. Deposits of this character may be made by individuals, firms, banks, or other corporations, whether foreign or domestic, and may be time deposits or on demand.

**Outside the United States.**—Outside the United States a Corporation may receive deposits of any kind from individuals, firms, banks, or other corporations, provided, however, that if such corporation has any of its bonds, debentures, or other such obligations outstanding it may receive abroad only such deposits as are incidental to the conduct of its exchange, discount, or loan operations.

**Reserves.**—Against all deposits received in the United States a reserve of not less than 13 per cent must be maintained. This reserve may consist of cash in vault, a balance with the Federal Reserve Bank of the district in which the head office of the Corporation is located, or a balance with any member bank. Against all deposits received abroad the Corporation shall maintain such reserves as may be required by local laws and by the dictates of sound business judgment and banking principles.

#### XV. GENERAL LIMITATIONS AND RESTRICTIONS.

**Liabilities of one borrower.**—The total liabilities to a Corporation of any person, company, firm, or corporation for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed 10 per cent of the amount of its subscribed capital and surplus, except with the approval of the Federal Reserve Board: *Provided, however,* That the discount of bills of exchange drawn in good faith against actually existing values and the

discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as money borrowed within the meaning of this paragraph. The liability of a customer on account of an acceptance made by the Corporation for his account is not a liability for money borrowed within the meaning of this paragraph unless and until he fails to place the Corporation in funds to cover the payment of the acceptance at maturity or unless the Corporation itself holds the acceptance.

**Aggregate liabilities of the Corporation.**—The aggregate of the Corporation's liabilities outstanding on account of acceptances, average domestic and foreign deposits, debentures, bonds, notes, guaranties, indorsements, and other such obligations shall not exceed at any one time ten times the amount of the Corporation's subscribed capital and surplus except with the approval of the Federal Reserve Board. In determining the amount of the liabilities within the meaning of this paragraph, indorsements of bills of exchange having not more than six months to run, drawn and accepted by others than the Corporation, shall not be included.

**Operations abroad.**—Except as otherwise provided in the law and these regulations, a Corporation may exercise abroad not only the powers specifically set forth in the law but also such incidental powers as may be usual in the determination of the Federal Reserve Board in connection with the transaction of the business of banking or other financial operations in the countries in which it shall transact business. In the exercise of any of these powers abroad a Corporation must be guided by the laws of the country in which it is operating and by sound business judgment and banking principles.

#### XVI. MANAGEMENT.

The directors, officers, or employees of a Corporation shall exercise their rights and perform their duties as directors, officers, or employees, with due regard to both the letter and the spirit of the law and these regulations. For the purpose of these regulations the Corporation shall, of course, be responsible for all acts of omission or commission of any of its directors, officers, employees, or representatives in the conduct of their official duties. The character of the management of a Corporation and its general attitude toward the purpose and spirit of the law and these regulations will be considered by the Federal Reserve Board in acting upon any application made under the terms of these regulations.

#### XVII. REPORTS AND EXAMINATIONS.

**Reports.**—Each Corporation shall make at least two reports annually to the Federal Reserve Board at such times and in such form as it may require.

**Examinations.**—Each Corporation shall be examined at least once a year by examiners appointed by the Federal Reserve Board. The cost of examinations shall be paid by the Corporation examined.

#### XVIII. AMENDMENTS TO REGULATIONS.

These regulations are subject to amendment by the Federal Reserve Board from time to time, provided, however, that no such amendment shall prejudice obligations undertaken in good faith under regulations in effect at the time they were assumed.

### REGULATION L

#### INTERLOCKING BANK DIRECTORATES UNDER THE CLAYTON ACT.

##### SECTION I. DEFINITIONS.

Within the meaning of this regulation—  
The term "member bank" shall apply to any national bank and any State bank or trust company which is a member of the Federal Reserve System.

The term "national bank" shall be construed to apply not only to national banking associations but also to banks, banking associations, and trust companies organized or operating under the laws of the United States, including all banks and trust companies doing business in the District of Columbia, regardless of the sources of their charters.

The term "resources" shall be construed to mean an amount equal to the sum of the deposits, capital, surplus, and undivided profits.

The term "State bank" shall include any bank, banking association, or trust company incorporated under State law.

The term "private banker" shall apply to any unincorporated individual engaging in one or more phases of the banking business as that term is generally understood and to any member of an unincorporated firm engaging in such business.

The term "Edge Act" shall mean section 25 (a) of the Federal Reserve Act as amended December 24, 1919.

The term "Edge Corporation" shall mean any corporation organized under the provisions of the Edge Act.

The term "city of over 200,000 inhabitants" includes any city, incorporated town, or village of more than 200,000 inhabitants, as shown by the last preceding decennial census of the United States. Any bank located anywhere within the corporate limits of such city is located in a city of over 200,000 inhabitants within the meaning of the Clayton Act, even though it is located in a suburb or an outlying district at some distance from the principal part of the city.

#### SECTION II. PROHIBITIONS OF CLAYTON ACT.

Under section 8 of the Clayton Antitrust Act—

(1) No person who is a director or other officer or employee of a national bank having resources aggregating more than \$5,000,000 can legally serve at the same time as director, officer, or employee of any other national bank, regardless of its location.

(2) No person who is a director in a State bank or trust company having resources aggregating more than \$5,000,000 or who is a private banker having resources aggregating more than \$5,000,000 can legally serve at the same time as director of any national bank, regardless of its location.

(3) No person can legally be a director, officer, or employee of a national bank located in a city of more than 200,000 inhabitants who is at the same time a private banker in the same city or a director, officer, or employee of any other bank (State or national) located in the same city, regardless of the size of such bank.

The eligibility of a director, officer, or employee under the foregoing provisions is determined by the average amount of deposits, capital, surplus, and undivided profits as shown in the official statements of such bank, banking association, or trust company filed as provided by law during the fiscal year next preceding the date set for the annual election of directors, and when a director, officer, or employee has been elected or selected in accordance with the provisions of the Clayton Act it is lawful for him to continue as such for one year thereafter under said election or employment.

When any person elected or chosen as a director, officer, or employee of any bank is eligible at the time of his election or selection to act for such bank in such capacity his eligibility to act in such capacity is not affected by reason of any change in the affairs of such bank from whatsoever cause until the expiration of one year from the date of his election or employment.

#### SECTION III. EXCEPTIONS.

The provisions of section 8 of the Clayton Act—

(1) Do not apply to mutual savings banks not having a capital stock represented by shares.

(2) Do not prohibit a person from being at the same time a director, officer, or employee of a national bank and not more than one other national bank, State bank, or trust company, where the entire capital stock of one is owned by the stockholders of the other.

(3) Do not prohibit a person from being at the same time a class A director of a Federal Reserve Bank and also an officer or director, or both an officer and a director, in one member bank.

(4) Do not prohibit a person who is serving as director, officer, or employee of a national bank, even though it has resources aggregating over \$5,000,000, from serving at the same time as director, officer, or employee of any number of State

banks and trust companies, provided such State institutions are not located in the same city of over 200,000 inhabitants as the national bank and do not have resources aggregating in the case of any one bank more than \$5,000,000.

(5) Do not prohibit a person from serving at the same time as director, officer, or employee of any number of national banks, provided no two of them are located in the same city of over 200,000 inhabitants and no one of them has resources aggregating over \$5,000,000.

(6) Do not prohibit a person who is not a director, officer, or employee of any national bank from serving at the same time as officer, director, or employee of any number of State banks or trust companies, regardless of their locations and resources.

(7) Do not prohibit a person who is an officer or employee but not a director of a State bank from serving as director, officer, or employee of a national bank, even though either or both of such banks have resources aggregating over \$5,000,000 provided both banks are not located in the same city of over 200,000 inhabitants.

(8) Do not prohibit a person who is an officer or employee but not a director of a national bank from serving at the same time as director, officer, or employee of a State bank, even though either or both of such banks have resources aggregating over \$5,000,000, provided both banks are not located in the same city of over 200,000 inhabitants.

(9) Do not apply to persons who have obtained the consent or approval of the Federal Reserve Board under the provisions of the Kern amendment, section 25 of the Federal Reserve Act, or the Edge Act, as hereinafter provided.

*Exceptions cumulative.*—The above exceptions are cumulative.

#### SECTION IV. PERMISSION OF THE FEDERAL RESERVE BOARD UNDER KERN AMENDMENT.

By the Kern amendment, approved May 15, 1916, as amended May 26, 1920, the Clayton Act was amended so as to authorize the Federal Reserve Board to permit any private banker or any officer, director, or employee of any member bank or class A director of a Federal Reserve Bank to serve as director, officer, or employee of not more than two other banks, banking associations, or trust companies coming within the prohibitions of the Clayton Act, provided such other banks are not in substantial competition with such private banker or member bank.

*Substantial competition.*—If the institutions involved are not in substantial competition, the Board is authorized, in its discretion, to grant, withhold, or revoke such consent; but if they are in substantial competition, the Board has no discretion in the matter and must refuse such consent.

The Board has adopted the following statement of general principles for its guidance in determining whether banks are in substantial competition within the meaning of the Kern amendment to the Clayton Act:

"In general, two banks will be deemed to be in substantial competition if they actually compete for a considerable amount of business, *i. e.*, if a considerable portion of the business of each is of the same character and in doing or seeking such business they actually compete for the same customers or prospective customers, regardless of whether or not it is probable or possible that an interlocking directorate between them would result in injury to the public by making credit less available. If the statements of two banks show that each has a considerable amount of the same class of deposits or loans and it appears from the evidence submitted that they are so located as to be in a position to serve the same customers conveniently, the Board will presume, in the absence of evidence to the contrary, that they are in substantial competition. This presumption may be rebutted, however, by any evidence showing that they are not actually competing for such business, *e. g.*, that they actually serve different classes of customers, that the business in question is not actually sought by one bank but is merely incidental to its other business, or that competition has already been eliminated through common stock



ownership. The existence of substantial competition, however, may be shown by evidence other than that described above."

This is not intended as a precise definition of the term "substantial competition," but merely as a broad statement of the general principles which will be observed by the Federal Reserve Board in determining whether banks are in substantial competition. Whether or not substantial competition exists in any particular case is a question of fact which must be determined in the light of all the facts and circumstances involved in such case.

*When obtained.*—Inasmuch as the Kern amendment excepts from the prohibitions of the Clayton Act only those "who shall first procure the consent of the Federal Reserve Board," it is a violation of the law to serve two or more institutions in the prohibited classes before such consent has been obtained. Such consent should be obtained, therefore, before becoming an officer, director, or employee of more than one bank in the prohibited classes. Such consent may be procured before the person applying therefor has been elected as a class A director of a Federal Reserve Bank or as a director of any member bank.

*Applications for permission.*—A person wishing to obtain the permission of the Federal Reserve Board to serve banks coming within the prohibitions of the Clayton Act should—

(1) Make formal application on F. R. B. Form 94, or, if a private banker, on F. R. B. Form 94d. Each of these forms is made a part of this regulation.

(2) Obtain from each of the banks involved a statement on F. R. B. Form 94a, which is made a part of this regulation, showing the character of its business, together with a copy of its last published statement of condition, and, if a private banker, make a statement on F. R. B. Form 94e showing the character of his or his firm's business.

(3) Forward all these papers to the Federal Reserve Agent of his district, who will attach his recommendation on F. R. B. Form 94b, which is made a part of this regulation, and forward them in due course to the Federal Reserve Board.

*Approval or disapproval.*—As soon as an application is acted upon by the Board, the applicant will be advised of the action taken.

If the Board approves the application, a formal certificate of permission to serve on the banks involved will be issued to the applicant.

*Rehearing.*—If the Board decides that the banks are in substantial competition and that it can not approve the application, it will, upon petition of the applicant, reconsider its decision and afford him every opportunity to present any additional facts or arguments bearing on the subject.

*Effect of permits.*—Permission once granted is continuing until revoked, and need not be renewed.

*Revocation.*—All permits, however, are subject to revocation at any time in the discretion of the Federal Reserve Board. The issuance of a permit to any person shall have the effect of revoking any or all permits which may have been issued previously to that person.

#### SECTION V. PERMITS UNDER SECTION 25 OF THE FEDERAL RESERVE ACT.

With the approval of the Federal Reserve Board any director, officer, or employee of a member bank which has invested in the stock of any corporation principally engaged in international or foreign banking or financial operations or banking in a dependency or insular possession of the United States, under the provisions of section 25 of the Federal Reserve Act, may serve as director, officer, or employee of any such foreign bank or financial corporation.

*Applications for approval.*—The approval of the Federal Reserve Board for such interlocking directorates may be obtained through an informal application in the form of a letter addressed to the Federal Reserve Board either by the officer, director, or employee involved, or in his behalf by one of the banks which he is serving. Such application should be sent directly to the Federal Reserve Board.

#### SECTION VI. PERMITS TO SERVE EDGE CORPORATIONS

With the approval of the Federal Reserve Board—  
(1) Any officer, director, or employee of any member bank may serve at the same time as director, officer, or employee of any Edge Corporation in whose capital stock the member bank shall have invested.

(2) Any officer, director, or employee of any Edge Corporation may serve at the same time as officer, director, or employee of any other corporation in whose capital stock such Edge Corporation shall have invested under the provisions of the Edge Act.

*Applications for approval.*—Such approval may be obtained through an informal application in the form of a letter addressed to the Federal Reserve Board either by the director, officer, or employee involved, or in his behalf by one of the banks or corporations involved. Such applications should be sent directly to the Federal Reserve Board.

#### Federal Reserve Board Settlement

Settlement of balances arising among Federal Reserve banks as a result of inter-district collections. (See Gold Settlement Fund.)

#### Federal Reserve Branch Banks

Banks operating as branches of a Federal Reserve bank. The Federal Reserve Act authorizes Federal Reserve banks to establish branches without limit as to number under regulations approved by the Federal Reserve Board, but each branch must be within the boundaries of the Federal Reserve district of the Reserve bank which establishes it. At the date of this publication twenty-three branches had been established.

For the boundaries of the Federal Reserve districts and the areas served by the branch banks, see map under Federal Reserve Districts.

#### Federal Reserve Bulletin

The only official organ or periodical issued by the Federal Reserve Board, being its medium of communication with member banks of the Federal Reserve system. It is published in two editions. The first contains the regular official announcements, the national review of business conditions, and other general matter, and is distributed without charge to the member banks of the Federal Reserve system. The second edition contains detailed analyses of business conditions by districts, special articles, review of foreign banking and complete statistics showing the condition of the Federal Reserve banks. Copies are distributed to the public on a subscription basis.

### Federal Reserve Check Collection System

The Federal Reserve Act authorizes the Federal Reserve Board to require each Federal Reserve bank to "exercise the functions of a clearing house for its member banks." Although the Federal Reserve System began operations in 1914, the check collection system was not established until July, 1916.

The purpose of the Federal Reserve check system was to correct the defects of the methods previously employed, and particularly the following abuses: (1) circuitous routing of checks which grew out of the efforts of banks to avoid exchange charges, and which resulted in great delay in the presentation of items; (2) inequitable distribution of exchange charges between Eastern metropolitan banks and country banks, and (3) excessive exchange charges.

At the present time the Federal Reserve check collection system is efficiently organized, and through its instrumentality fully 90 per cent. of out-of-town items are passed directly, economically, and at par among members and clearing members, *i. e.*, non-member banks on the *Par List* (q. v.). Consequently, the only banks which do not participate in this collection system are such non-member banks as are not on the par list.

Member banks and clearing member banks are required to receive at par checks drawn on and presented to them by Federal Reserve banks. In order that banks using the system may know which non-member banks are members of the clearing system, the Federal Reserve Board publishes a semi-annual list with a monthly supplement containing the names of all the banks which are members

and clearing members. Member banks are not required to remit for checks forwarded to them, but instead may agree to allow the sending Federal Reserve bank to charge their accounts. Non-member banks which remit must send a check which the sending Federal Reserve bank can pass at par through the clearing house of the city in which it is located.

Member banks are not required to employ the Federal Reserve check collection system. They may forward their out-of-town items directly through correspondents, irrespective of their membership in the system, but it is stipulated by the rules of the New York and other clearing houses that if the correspondents are in the system, checks drawn on them cannot be collected under any other terms than those prescribed by the rules governing Federal Reserve collections as regards exchange and time outstanding.

When a member bank deposits checks with a Federal Reserve bank to be collected from another member or clearing member, the sending bank is immediately credited in the collection or "float" account of the Federal Reserve bank. That is to say, the amount of the checks so sent does not become available as reserve until the checks have been collected. The time for collecting these items, however, may be predetermined by consulting the "schedule showing when the proceeds of items become available," in which the United States is divided in time zones, all points within such zones requiring the indicated number of days for collection.

For example, a check which is deposited by a bank in New York City with the New York Federal Reserve bank, and drawn upon a member bank in Poughkeepsie, N. Y.,

District.	Branches.
1st District, Boston .....	None
2nd District, New York .....	Buffalo
3rd District, Philadelphia .....	None
4th District, Cleveland .....	Cincinnati, Pittsburgh
5th District, Richmond.....	Baltimore
6th District, Atlanta * .....	Birmingham, Nashville, Jacksonville, New Orleans
7th District, Chicago .....	Detroit
8th District, St. Louis.....	Louisville, Memphis, Little Rock
9th District, Minneapolis .....	Helena
10th District, Kansas City .....	Denver, Oklahoma City, Omaha
11th District, Dallas .....	Houston, El Paso
12th District, San Francisco.....	Seattle, Spokane, Portland, Salt Lake City, Los Angeles

\* An agency has also been established at Savannah, Ga.

#### LOCATION OF BRANCH FEDERAL RESERVE BANKS



does not become available in the reserve account of the depositing bank until two business days have elapsed. One day is required to forward the check to the drawee bank in Poughkeepsie, and another for the Poughkeepsie bank to remit to the Federal Reserve bank of New York. (See Federal Reserve Inter-District Collection System, Federal Reserve System, Gold Settlement Fund.)

**Federal Reserve Cities**

The cities in which the twelve Federal Reserve banks are located. Each Federal Reserve bank has a number corresponding to the district in which it operates. The twelve Federal Reserve cities, together with the districts in which they are located, are:

- |                  |                    |
|------------------|--------------------|
| 1. Boston.       | 7. Chicago.        |
| 2. New York.     | 8. St. Louis.      |
| 3. Philadelphia. | 9. Minneapolis.    |
| 4. Cleveland.    | 10. Kansas City.   |
| 5. Richmond.     | 11. Dallas.        |
| 6. Atlanta.      | 12. San Francisco. |

(See Federal Reserve Branch Banks, Federal Reserve Districts.)

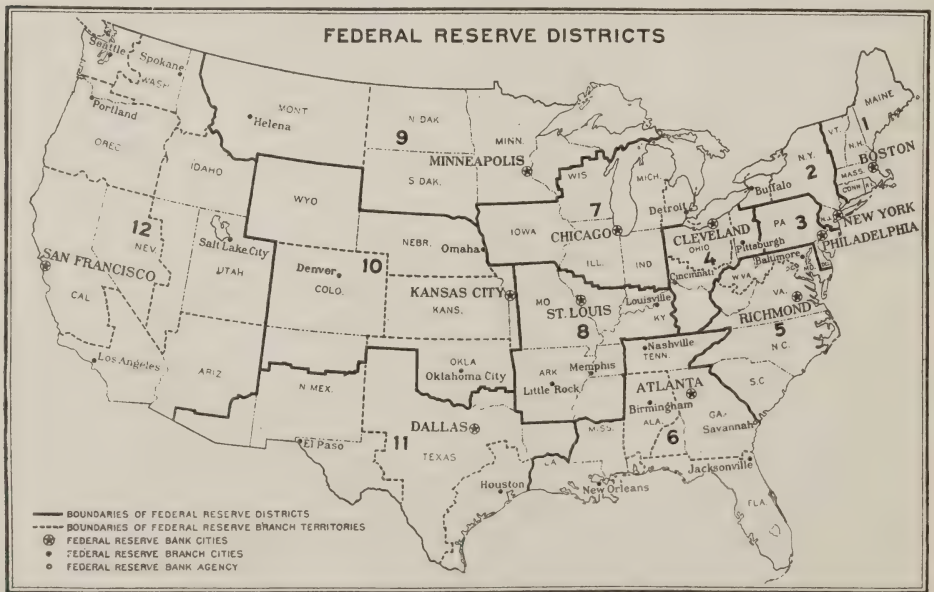
**Federal Reserve Districts**

The boundaries of the twelve Federal Reserve districts and the location of the Federal Reserve banks and branch banks are shown in the accompanying map.

**Federal Reserve Inter-District Collection System**

Out-of-town items may be collected within the same or in another Federal Reserve district. The former are known as intra-district collections; the latter, as inter-district collections. In inter-district collections, inter-Federal Reserve bank accounting is involved. For example, suppose a member bank in New York City sends checks to the Federal Reserve bank of New York drawn upon a bank in Chicago. The New York Federal Reserve bank forwards them to the Chicago Federal Reserve bank, which collects them through the Chicago clearing house. When collection is made in Chicago, the credit belonging to the depositing member bank in New York is first placed upon the books of the Federal Reserve bank in Chicago, but in favor of the New York Federal Reserve bank. That is to say, this credit is merely one of many credits belonging to the New York Federal Reserve bank. Conversely, the Chicago Federal Reserve bank, having sent checks to the New York Federal Reserve bank, is entitled to certain credits.

Settlement for collections arising among the various Federal Reserve banks is arranged by the Federal Reserve Board at Washington which acts as clearing house



manager through the operation of the *Gold Settlement Fund* (q. v.).

Federal Reserve banks eliminate the shipment of large sums of currency by clearing daily with one another by means of a private wire system connecting the Board with each of the banks. This makes it possible to give "availability" to items on the day they are paid. Clearing involves only a change of ownership of gold by book entries, *i. e.*, debits and credits to the gold settlement fund. Shipments of gold are necessary only when the debit balances become so great that the fund becomes depleted and requires replenishment. Thus, inter-district collections are effected with practically no domestic movement of gold, and out-of-town items cleared through the Federal Reserve System become available almost as soon as presented to the paying bank. (See Federal Reserve Check Collection System, Federal Reserve System.)

### Federal Reserve Notes

Circulating notes issued by the Federal Reserve banks. They furnish from one-third to one-half of the circulating medium of the country; represent the only form of *Elastic Currency* (q. v.); and are authorized by section 16 of the Federal Reserve Act.

The security behind Federal Reserve notes is of three kinds: (1) commercial paper rediscounted for member banks and held by Federal Reserve banks; (2) bankers' acceptances held by Federal Reserve banks, and (3) gold or gold certificates. Whenever commercial paper or bankers' acceptances serve as collateral for Federal Reserve notes, the value of such collateral at face value must be equivalent to the amount of notes issued. In addition a gold reserve of 40 per cent. is required. But, whenever gold or gold certificates are included in the collateral, they count as part of the 40 per cent. gold reserve requirement.

Federal Reserve notes are issued in denominations of \$5, \$10, \$20, \$50, \$100, \$500, \$1,000, \$5,000, and \$10,000. The distinctive serial number of the Federal Reserve bank of issue appears on these notes, which are engraved with green backs and bear a blue seal on the obverse side.

Federal Reserve notes are redeemable in gold or lawful money at any Federal Reserve bank or at the United States Treasury. A redemption fund of at least 5 per cent. of the total notes outstanding is required to be kept at the Treasury Department in Washington by each Federal Reserve bank from which the notes may be redeemed if pre-

sented. They are not legal tender, but are receivable by the Government for all public dues and on all accounts by all Federal Reserve banks, National banks, and other members of the Federal Reserve System.

In addition to being secured by a direct pledge of assets, Federal Reserve notes are a direct obligation of the issuing Federal Reserve bank and represent a first lien, equally with Federal Reserve bank notes, on the bank's assets. They are also a direct obligation of the United States Government. Thus they are secured by specific collateral held by Federal Reserve agents, by the general assets of the issuing bank, by the double liability of the stockholding banks, and by the United States Government.

They should not be confused with *Federal Reserve Bank Notes* (q. v.),

### Federal Reserve Ratio

See Federal Reserve Statement, Reserve Ratio.

### Federal Reserve Rediscount Rate

See Rediscount, Rediscount Rate.

### Federal Reserve Statement

The statement of condition of the combined twelve Federal Reserve banks. Each Federal Reserve bank is required to telegraph its financial condition to the Federal Reserve Board as of the close of business each Wednesday. These are combined by the Board which furnishes to the world the Federal Reserve Statement, published weekly in the financial and more important newspapers. Thus the single statement of each Federal Reserve bank and the consolidated statement of the twelve Federal Reserve banks are available for the information of the public. Both the single and consolidated statements show two ratios of considerable importance: (1) ratio of reserves to combined deposits and Federal Reserve note liabilities, and (2) ratio of reserves to Federal Reserve notes in circulation after setting aside 35 per cent. against deposit liabilities.

The consolidated statement of the twelve Federal Reserve banks is one of the most important banking displays in the world, and certainly the most important in this country. It is an epitome of the credit and banking situation in the United States. By comparing current figures with those of the preceding week and year, the change in condition, favorable or unfavorable, is displayed. This



statement is scanned with great interest by the banking and financial world, as well as by the investing and speculating public as presenting the best cue as to the supply of credit and probable trend of interest rates. The form of statement follows:

*Membership.* The system consists of (1) twelve Federal Reserve banks and their branches (which may be established at home or abroad), (2) National banks, which are required to become stockholding members of the Federal Reserve bank of their district,

FEDERAL RESERVE STATEMENT (TWELVE FEDERAL RESERVE BANKS)

	August 8, 1923.	August 1, 1923.	August 9, 1922.
<b>RESOURCES</b>			
Gold and gold certificates.....	\$346,809,000	\$344,561,000	\$314,391,000
Gold settlement fund—Federal Reserve Board....	664,114,000	650,318,000	481,333,000
Total gold held by banks .....	\$1,010,923,000	\$994,879,000	\$795,724,000
Gold with Federal Reserve Agents.....	2,040,012,000	2,048,062,000	2,233,430,000
Gold redemption fund .....	61,701,000	66,725,000	42,489,000
Total gold reserves .....	\$3,112,636,000	\$3,109,666,000	\$3,071,643,000
Reserves other than gold .....	77,484,000	84,058,000	130,534,000
Total reserves .....	\$3,190,120,000	\$3,193,724,000	\$3,202,177,000
Non-reserve cash .....	64,138,000	66,492,000	* .....
Bills discounted:			
Secured by U. S. Government obligations.....	397,209,000	381,862,000	117,777,000
Other bills discounted .....	425,893,000	424,575,000	264,384,000
Bills bought in open market .....	177,409,000	182,630,000	146,803,000
Total bills on hand .....	\$1,000,511,000	\$989,067,000	\$528,964,000
U. S. bonds and notes .....	82,921,000	83,802,000	199,746,000
U. S. certificates of indebtedness .....	7,285,000	9,991,000	291,065,000
Municipal warrants .....	10,000	10,000	4,000
Total earning assets .....	\$1,090,727,000	\$1,082,870,000	\$1,020,679,000
Bank premises .....	53,424,000	53,360,000	42,804,000
Five per cent redemption fund against Federal Reserve banknotes .....	193,000	193,000	6,679,000
Uncollected items .....	539,877,000	522,392,000	578,520,000
All other resources .....	13,058,000	12,982,000	16,449,000
Total resources .....	\$4,951,537,000	\$4,988,141,000	\$4,811,180,000
<b>LIABILITIES</b>			
Capital paid in .....	\$109,673,000	\$109,497,000	\$105,730,000
Surplus .....	218,369,000	218,369,000	215,398,000
Deposits:			
Government .....	21,935,000	41,584,000	27,880,000
Member bank—Reserve account .....	1,860,022,000	1,879,504,000	1,783,539,000
Other deposits .....	22,834,000	23,463,000	24,384,000
Total deposits .....	\$1,904,791,000	\$1,944,551,000	\$1,835,803,000
Federal Reserve notes in actual circulation.....	2,224,358,000	2,187,729,000	2,147,223,000
Federal Reserve banknotes in circulation—net liabilities .....	1,571,000	1,556,000	60,547,000
Deferred availability items .....	474,269,000	508,543,000	424,691,000
All other liabilities .....	18,506,000	17,896,000	21,788,000
Total liabilities .....	\$4,951,537,000	\$4,988,141,000	\$4,811,180,000
Ratio of total reserves to deposit and Federal Reserve note liabilities combined .....	77.3%	77.3%	80.4%
Contingent liability on bills purchased for foreign correspondents .....	\$33,136,000	\$33,133,000	\$29,863,000

\* Not shown separately prior to January, 1923.

(See Federal Reserve System.)

### Federal Reserve System

The central banking system of the United States, created by the *Federal Reserve Act* (q. v.) approved December 23, 1913. It is undoubtedly the world's strongest banking system, and combines eclectically the leading features of the principal European central banking systems, adapted to American requirements.

and (3) such state banks and trust companies as may elect to join the system by meeting the qualifications of membership. Thus, National banks are required to become members of the system, but with the state banks and trust companies membership is optional.

Before the passage of the Federal Reserve Act, the banking system of the United States was composed of the three distinct groups of institutions above mentioned. National

banks were instituted by the *National Bank Act* (q. v.) of 1863 and its subsequent amendments, while state banks and trust companies were organized and operated under the laws of the separate states, dating from early American history. The Federal Reserve Act is not a negation of the National Bank Act, but rather a revision and elaboration of it.

*Development.* The Federal Reserve Act grew out of the defects and insufficiencies of the former decentralized national-state system, especially in the following particulars:

1. No provision for elastic currency. Bank notes were rigid in amount, based upon the bonded debt of the United States rather than upon sound and liquid business paper. This inelastic currency system was a panic breeder. At critical times the banking system broke down because it was unable to furnish an adequate supply of money to meet the needs of legitimately expanding business.

2. No provision for rediscount facilities as a means of furnishing elastic credit, *i. e.*, there was no certain market for the rediscount or sale of sound business paper.

3. Reserves were not centralized. Instead, the partial redeposit of reserves by country and reserve city banks at interest in central reserve city banks (particularly in New York City) made the reserve structure fictitious. They were not available when needed.

4. The system of collection of out-of-town checks was inefficient and uneconomical.

5. There was no rational control over the money market.

Steps toward removing these defects were actively begun as an aftermath of the panic of 1907, when public attention was again focussed on the problem of banking reform. Accordingly, in 1908, Congress created the *National Monetary Commission* (q. v.) to determine what modifications might be necessary to remove the weaknesses in existing banking legislation. After four years of investigation, this body reported its recommendations to Congress in full in a plan which later became known as the "Aldrich Plan." After undergoing numerous modifications and revisions, this report was finally submitted for the approval of Congress, and culminated in the Federal Reserve Act.

*Ownership and Earnings.* The Federal Reserve banks are banks of banks. Except as to open market operations, their dealings are restricted to banks and with the Government. There are no individual stockholders. The stock is owned by member banks, which are

required to subscribe to the stock of the Federal Reserve bank of their district in an amount equal to 6 per cent. of the member bank's combined capital and surplus. Only one-half of this subscription, namely, 3 per cent., has been called up to the present time. The stock has a par value of \$100, is of one class, cannot be transferred or hypothecated, and pays a fixed cumulative dividend at the rate of 6 per cent. So long as it is a member of the system, a member bank may retain the stock, and its holdings are automatically increased or diminished to correspond with any changes that may occur in its capital account.

After payment of all expenses, dividends constitute the first claim against earnings. Until the surplus account reaches an amount equal to the capital, earnings in excess of dividend requirements are carried to such surplus; thereafter, 10 per cent. of the earnings in excess of the dividends is carried to surplus, the remainder being paid to the Government as a franchise tax. Earnings of the Federal Reserve banks are exempt from income taxes.

*Federal Reserve Board.* The administrative and co-ordinating body of the Federal Reserve System is the *Federal Reserve Board* (q. v.) consisting of 6 members appointed by the President of the United States (and confirmed by the Senate) to serve for 10 years at a salary of \$12,000, and the Comptroller of the Currency and the Secretary of the Treasury, as ex-officio members. One of the appointees of the President is named as Governor of the Board, and a second as Vice-Governor.

This body, sitting at Washington, controls the Federal Reserve banks, and is endowed with broad powers, among the most important of which are: (1) to examine Federal Reserve banks and member banks (optional); (2) to make detailed reports of condition of the twelve banks weekly (compulsory); (3) to add to, or to reclassify, reserve and central reserve cities; (4) to require the writing off of doubtful assets from the records of the Federal Reserve banks; (5) to suspend or remove any officer, director, or employee of the Federal Reserve banks with cause; (6) to suspend (for violation of any section of the Federal Reserve Act) any Federal Reserve bank, to operate it, and wherever necessary, to reorganize it; (7) to supervise, through the Comptroller of the Currency, the issue and retirement of Federal Reserve notes, and to prescribe regulations covering such issue and



retirement; (8) to suspend reserve requirements for periods of 15 days (subject to renewal), with certain graduated taxes to be imposed as penalty; (9) to grant trust powers to National banks when not in contravention to state laws; (10) to approve changes in the rediscount rate of any Federal Reserve bank; (11) to permit, or on affirmative vote of 5 members, to require Federal Reserve banks to rediscount paper for one another at rates approved by the Board; and (12) to make general regulations on all operations of the Act and to have general supervision over all Federal Reserve banks.

In sum, the Board is a dominant force in unifying the twelve regional banks into a comprehensive organization. This is secured by the specific powers granted to it, by direct contact with each bank established through a system of private wires, by its appointment of the Federal Reserve Agent at each bank, by acting as clearing-house manager for inter-district clearings, by reports from and examinations of these banks, and through its rulings on questions requiring an interpretation of the meaning of the Federal Reserve Act.

*Federal Advisory Council.* The *Federal Advisory Council* (q. v.) is a body with consultative rather than mandatory powers. It is composed of twelve members, each representative of a separate Federal Reserve bank, and elected annually by its board of directors. The council meets four times a year at Washington for the purpose of assisting the Federal Reserve Board by conferring and advising, and making recommendations with regard to matters pertaining to business and financial conditions in their respective districts.

*Federal Reserve Bank Organization.* Each Federal Reserve bank has its distinct organization, and serves its own district, whence it is sometimes known as a "regional" bank. The minimum capital for each bank is \$4,000,000, but the majority of them have a capitalization considerably in excess of this amount.

Each Federal Reserve bank is under the direct control of a board of nine directors, divided into three classes of three directors each. These classes are known as Class A, Class B, and Class C. Class A and B directors are elected by the stockholding banks, and Class C directors are appointed by the Federal Reserve Board. Class A directors must be active and experienced bankers; Class B directors must not be bankers, but engaged in business or farming; and Class

C directors are chosen from the public at large. One of the Class C directors, who must be of tested banking experience but not an officer, director, or employee of any bank during his term of office, is appointed to act as chairman of the board of directors. The chairman is also given the title of Federal Reserve Agent, and is the official representative of the Federal Reserve Board at each Federal Reserve Bank.

*Functions.* The functions of the Federal Reserve banks are:

1. *The centralization and mobilization of bank reserves.* Under the Federal Reserve System, the legal reserves of all member banks must be carried with the Federal Reserve banks of their districts. They are no longer scattered as "cash in vaults" at individual banks or in designated depositories. Being concentrated in twelve central reservoirs, these reserves furnish a base for extending a far greater volume of credit than was possible under the old system. Such reserves, moreover, are true reserves, *i. e.*, are non-interest bearing and cannot be re-deposited, thus preventing their use as earning assets in speculative or other operations.

Reserve requirements of member banks against demand and time deposits are as follows:

	Demand	Time
In central reserve cities	13%	3%
In reserve cities	10%	3%
In other (undesignated) cities	7%	3%

Federal Reserve banks themselves are required to keep a reserve in lawful money equal to 35 per cent. of their demand deposits. These reserves are effectively mobilized by being directed to where they are most needed by means of interdistrict discounting (see *Naked Reserve*), or by the sale of commercial paper eligible for open market operations in a comparatively "strong" district by a regional bank in a comparatively "weak" district.

2. *To furnish an elastic currency and credit.* Through rediscounting facilities, provision is made for an elastic bank-note and deposit currency. A member bank requiring additional funds may obtain them from its Federal Reserve bank by offering *Eligible Paper* (q. v.) for rediscount, or by borrowing on its own notes secured by eligible paper or by Government obligations. It may elect to receive the proceeds either in *Federal Reserve Notes* (q. v.) which it may pay out over the counter, or as a credit to its reserve account against which it may

draw, or expand its loans and deposits. In other words, Federal Reserve notes and excess reserve at the Federal Reserve bank are interconvertible to a member bank. (See Elastic Currency.)

During times of business contraction customers pay off their notes, thereby permitting member banks to take up their rediscounted paper at the Federal Reserve banks, with the result that Federal Reserve notes are retired, or the borrowing bank's deposits and loans reduced.

The limit to which Federal Reserve banks can issue Federal Reserve notes is fixed by the 40 per cent. gold reserve requirement. These notes must be fully secured by rediscounted commercial paper, gold, or gold certificates, except that in any case, the gold reserve cannot be less than 40 per cent. This limit may be suspended by the Board in times of unusual stress, but with certain penalties laid down in the Act.

3. *To provide an efficient system of collecting out-of-town checks.* The Federal Reserve Act empowers each Federal Reserve bank to exercise the functions of a clearing house for the member banks of its district, and for such non-member banks as may qualify (by keeping a sufficient balance to cover outstanding collections), which are known as *Clearing Member Banks* (q. v.). The Federal Reserve Board itself serves as manager for clearing debit and credit balances arising among the various Federal Reserve banks.

From all member and clearing member banks, Federal Reserve banks will receive all items, *e. g.*, checks, sight drafts, matured acceptances, matured notes, and coupons, *at par*, and forward them to the Federal Reserve bank of the district in which they are payable; or else a member bank may itself forward items payable in another district directly to the Federal Reserve bank of such district for credit of the sending bank's account with the Federal Reserve bank located in the sending bank's district. The United States is divided into time zones, and by inspection of a schedule published by each Federal Reserve bank showing when the proceeds of items sent to various points become available, it is possible to compute when any transited item becomes credited to the reserve account. All banks using the system are required to receive and remit for checks sent to and drawn upon them, *at par*.

Currency shipments in connection with the collection of checks for member banks by

Federal Reserve banks are largely eliminated by a daily clearing of interdistrict debits and credits despatched by means of private wires to the Federal Reserve Board, which makes appropriate entries against the accounts of the twelve banks in the *Gold Settlement Fund* (q. v.). The expense of intra- and inter-district clearings and collections is borne entirely by the Federal Reserve banks. (For further information with regard to *par* clearances, see Federal Reserve Check Collection System, Federal Reserve Inter-District Check Collection System.)

4. *To engage in open market operations.* (See Open Market Purchases.)

5. *To serve as depository and fiscal agent for the Government, and to carry on sub-treasury operations.* Federal Reserve banks are custodians of the major portion of the funds of the Government, and transfer them from place to place without charge. They make temporary advances to the Government. They are instrumental in the issue, flotation, conversion, and redemption of Government bonds and certificates of indebtedness, and pay the interest thereon. With the abandonment of the sub-treasuries in 1921, these banks supply member and other banks with coin and currency, and issue new currency in exchange for worn and mutilated bills and coins.

6. *To conserve the American money market.* This is largely achieved through the power (with the permission of the Federal Reserve Board) of raising and lowering the rediscount rate. Raising the rediscount rate is an effective tool for discouraging over-expansion in business, undue speculation, and a dangerous outflow of gold. Lowering the discount rate after a period of stress has subsided, on the other hand, is an invitation to expand business operations.

Through open market purchases and sales of commercial paper, bankers' acceptances, foreign bills of exchanges and cable transfers, also, these banks are enabled to exercise some degree of control not only over the money market, but also over gold movements, foreign exchange rates, and dollar quotations in foreign markets.

Summarizing, the following achievements have been gained by Federal Reserve System: (1) democratization of banking by placing facilities equally at the disposal of commercial, industrial, and agricultural interests; (2) concentration of reserves in twelve central reservoirs, thereby creating a base for a greater volume of credit; (3) prevention of panics by providing for an elas-



tic currency and credit, capable of expansion in times of rising prices and growing prosperity, and of contraction in times of falling prices and liquidation; (4) restoration of confidence in the soundness of our money, credit, and banking system; (5) creation of an efficient, swift, and economical system of collection of out-of-town checks; (6) assistance rendered the Government as a depository and fiscal agent, and in administering sub-treasury functions; (7) creation of the bankers' acceptance, and assistance given American bankers by enabling them to participate in the profits to be derived from financing foreign trade; (8) maintenance of a continuous open market for the purchase and sale of high-grade business paper; and (9) partial control of interest rates, gold movements, and foreign exchange fluctuations.

The tables on the following page exhibit the growth of the Federal Reserve System in the period 1918-1922.

(See Central Reserve Cities, Federal Reserve Advisory Council, Federal Reserve Agent, Federal Reserve Bank Notes, Federal Reserve Board, Federal Reserve Branch Banks, Federal Reserve Bulletin, Federal Reserve Cities, Federal Reserve Statement, Naked Reserve, National Bank System, National Monetary Commission, Rediscount, Rediscount Rate, Reserve Cities.)

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#### Fee

This term has two meanings:

(1) A commission; charge for services. This term now is rarely used in finance, being supplanted by the term *Commission* (q. v.). It is primarily used in connection with court costs in referring to witness fees, jurors' fees, and lawyers' fees.

(2) *Fee Simple* (q. v.).

#### Feeder

A branch line or short railroad which originates freight and passenger traffic for a main line or longer railroad. A feeder gathers traffic in territory where business is light and delivers it at a through traffic terminal to a line serving a richer territory.

#### Feeder Loans

See Cattle Loans.

#### Fee Simple

Absolute and unrestricted ownership of real estate; one who owns real property in fee simple has the right to full possession and enjoyment, and this right may be transmitted to "his heirs, representatives, and assigns forever."

#### Fen

A Chinese coin. (See Foreign Moneys—table 2.)

#### Feverish

An expression used to describe the stock and produce markets when prices are hesitating, changeable, and uncertain, especially at a time when fundamental conditions are unsettled.

#### Fiat Money

Inconvertible or irredeemable money which a Government declares shall be accepted as legal tender in payment of debts, but which is not covered by an available specie reserve. It consists either of Government promises to pay the quantity of which is regulated, or of

COMBINED STATEMENT—TWELVE FEDERAL RESERVE BANKS.

(000 omitted.)

	Total cash.	Bills secured by Gov. paper.	Commercial bills disc.	Total bills on hand.	Fed. Reserve note circ'n.	Ratio of res.
1922—						
December 27 .....	\$3,148,837	\$316,495	\$313,390	\$876,178	\$2,464,121	72.1
November 29 .....	3,202,810	315,280	334,816	909,322	2,329,814	76.4
October 25 .....	3,211,918	195,510	273,889	727,090	2,298,536	77.6
September 27 .....	3,203,127	139,102	281,078	658,296	2,243,384	78.4
August 30 .....	3,195,888	133,651	270,717	576,074	2,153,181	79.2
July 26 .....	3,181,498	115,238	264,743	536,119	2,126,809	79.2
June 28 .....	2,148,366	189,909	279,192	623,161	2,124,422	77.5
May 31 .....	3,130,497	171,106	300,384	589,672	2,141,184	78.0
April 26 .....	3,124,839	178,991	321,106	582,615	2,157,568	78.3
March 29 .....	3,103,379	242,797	393,155	738,643	2,181,843	77.8
February 21 .....	3,080,841	281,994	439,289	803,847	2,173,514	78.1
January 25 .....	3,058,855	357,921	482,252	932,882	2,184,007	77.2
1921—						
December 28 .....	\$2,992,200	\$487,193	\$692,640	\$1,294,073	\$2,443,497	71.7
November 30 .....	2,989,142	476,360	705,941	1,255,255	2,366,066	72.7
October 26 .....	2,937,148	461,886	846,863	1,347,931	2,408,122	71.0
September 28 .....	2,878,685	490,927	911,976	1,441,792	2,457,196	69.0
August 31 .....	2,787,920	545,176	946,759	1,527,255	2,481,466	66.8
July 27 .....	2,685,296	591,450	1,059,046	1,669,920	2,537,517	63.4
June 29 .....	2,625,458	647,761	1,123,801	1,803,165	2,634,475	60.8
May 25 .....	2,558,232	793,951	1,076,305	1,957,394	2,734,804	57.6
April 27 .....	2,504,763	920,537	1,143,202	2,167,348	2,830,118	55.0
March 25 .....	2,421,977	1,010,373	1,276,275	2,409,704	2,930,729	50.8
February 25 .....	2,356,999	1,003,975	1,392,279	2,566,757	3,051,706	49.9
January 28 .....	2,319,974	1,048,768	1,407,707	2,621,533	3,090,748	49.0
1920—						
December 30 .....	\$2,249,163	\$1,141,036	\$1,578,098	\$2,974,836	\$3,344,686	45.4
November 26 .....	2,195,310	1,192,200	1,543,230	2,983,103	3,325,538	44.4
October 29 .....	2,168,038	1,203,905	1,597,392	3,099,672	3,351,303	43.1
September 24 .....	2,151,594	1,220,423	1,484,041	3,012,088	3,279,996	40.3
August 27 .....	2,127,827	1,314,830	1,352,297	2,989,092	3,203,637	43.2
July 30 .....	2,128,640	1,241,017	1,250,613	2,836,935	3,120,138	44.2
June 25 .....	2,108,605	1,277,980	1,153,814	2,830,979	3,116,718	43.6
May 28 .....	2,092,496	1,447,962	1,071,469	2,938,031	3,107,021	42.7
April 30 .....	2,070,765	1,465,320	1,069,751	2,942,318	3,074,555	42.4
March 26 .....	2,057,155	1,441,015	1,008,215	2,901,109	3,048,039	42.7
February 27 .....	2,083,215	1,572,980	880,531	2,984,878	3,019,984	42.5
January 30 .....	2,073,933	1,457,892	716,465	2,735,670	2,850,944	44.5
1919—						
December 26 .....	\$2,135,536	\$1,510,364	\$684,514	\$2,780,090	\$3,057,646	44.8
November 28 .....	2,159,666	1,736,033	478,176	2,709,804	2,852,277	45.5
October 31 .....	2,205,592	1,681,465	394,355	2,522,902	2,752,876	47.9
September 26 .....	2,187,505	1,572,503	309,779	2,224,773	2,655,354	51.0
August 29 .....	2,135,976	1,609,296	205,838	2,178,272	2,580,629	50.7
July 25 .....	2,161,023	1,616,210	251,392	2,243,158	2,504,497	50.2
June 27 .....	2,216,256	1,573,483	255,557	2,122,598	2,499,180	52.1
May 29 .....	2,255,106	1,802,893	186,499	2,173,042	2,519,292	51.8
April 25 .....	2,240,152	1,760,672	189,740	2,136,234	2,549,552	52.1
March 28 .....	2,210,524	1,691,010	195,230	2,134,347	2,521,776	51.9
February 28 .....	2,188,723	1,669,684	210,136	2,156,739	2,472,307	51.3
January 31 .....	2,179,646	1,357,650	243,478	1,882,421	2,450,729	53.0
1918—						
December 27 .....	\$2,146,219	\$1,400,371	\$302,567	\$2,006,611	\$2,685,244	50.6
November 29 .....	2,120,371	1,412,511	402,684	2,190,536	2,568,676	50.0
October 26 .....	2,098,169	1,092,417	453,747	1,944,787	2,507,912	49.6
September 27 .....	2,072,176	1,221,533	491,897	2,001,821	2,316,557	51.6
August 30 .....	2,006,962	1,428,235	232,563	1,660,798	2,092,708	56.4
July 27 .....	2,029,329	1,302,151	205,274	1,507,425	1,870,835	58.1
June 28 .....	2,006,199	869,175	216,848	1,086,923	1,722,216	61.7
May 31 .....	1,975,709	897,357	256,373	1,153,730	1,600,968	62.0
April 26 .....	1,890,945	902,188	302,399	1,204,587	1,526,232	61.3
March 29 .....	1,874,063	583,228	304,065	887,293	1,452,838	62.7
February 21 .....	1,832,524	509,534	296,170	805,704	1,314,581	63.8
January 25 .....	1,782,759	627,662	273,912	901,574	1,234,934	65.4



undervalued metallic coins (silver, nickel, or copper) coined only on Government account, but in no event is there expectation of redeeming either variety in the standard metal.

Fiat money was issued in large quantities during our colonial, revolutionary, and civil war periods, each time with the same disastrous results, viz., driving full value coins out of circulation, or subjecting them to a premium, inflating prices, and in the end, becoming worthless, except in the case of the civil war greenbacks, which became redeemable money by the Specie Resumption Act of 1875. (See Money.)

### Fictitious Payee

A non-existent payee; a fictitious person to whom a check, note, or bill of exchange is made payable. The term also applies to an existing payee whose name has fraudulently been inserted on a check, note, etc.

### Fidelity Insurance

Insurance provided to indemnify employers against loss by reason of the dishonesty of employees, or on account of the non-performance of contracts. In fidelity insurance contracts, the insurance company undertakes a suretyship issuing fidelity insurance bonds as a guaranty against loss arising from default or dishonesty of the insured person. The beneficiary under this form of insurance may be a private employer, a state, county or municipality, or the United States Government. The former is the most common and of the greatest practical value. Fidelity insurance companies require each applicant for a bond for which insurance is to be provided to fill out a form. In considering the application the reputation and past history of the individual is scrutinized, the opportunity or temptation for theft or dishonesty which his position offers, and the value of the property in his possession by virtue of his employment. In investigating his reputation the criminal and civil court records are consulted. Where the risk has a criminal record the application is usually rejected. Fidelity bonds are issued for three classes of risks, larceny or embezzlement, culpable negligence, and the faithful discharge of duty.

### Fiduciary

A person or corporation (bank or trust company) in whom certain property of the principal is entrusted for some purpose speci-

fied in the trust instrument. The most common fiduciaries are trustees, executors, administrators, etc.

### Fiduciary Capacity

A trust capacity; acting as trustee, executor, administrator, guardian, conservator, committee in lunacy, receiver, assignee, for the principal by a person or corporation. A fiduciary capacity differs from an agency in that the latter does not involve court jurisdiction, and can be terminated at a moment's notice.

National banks are permitted to act in a fiduciary capacity when not in contravention of state or local laws by authority of Section 11 (k) of the *Federal Reserve Act* (q. v.). Most of the states also have passed laws enabling state banks to act as fiduciaries. (See Trusts.)

### Files

See Average Loan and Balance File, Credit Files.

### Filler

An Hungarian coin. (See Foreign Moneys—table 2.)

### Filling

The part of a check which contains the amount written both in words and figures. The words and figures should agree, but the Negotiable Instruments Law states that wherever there is a discrepancy, the sum denoted by the words is the sum payable, unless the words are ambiguous or uncertain. In that case the figures may be taken to fix the amount payable.

### Finance

This term has three meanings:

(1) To raise money necessary to organize, reorganize, or extend an enterprise, whether by the sale of stocks, bonds, notes, or otherwise.

(2) A general term to denote the theory and practice of monetary, credit, banking, and promotion operations in the most comprehensive sense. It includes money, credit, banking, securities, investment, speculation, foreign exchange, promotion, reorganization, underwriting, brokerage, trusts, etc.

(3) Originally the term was applied to the raising of money by taxes or bond issues and the administration of revenues and expenditures by a Government. This is now known as *Public Finance* (q. v.).

### Finance Bills

A clean bill of exchange, usually of 60 days tenor or over, drawn by a bank or banker in one country on a bank or banker in another for the purpose of raising funds, and especially when the interest rates in the country on which the bill is drawn are lower than in the country where the bill is drawn. Finance bills are not drawn against the shipment of goods; they are bankers' bills as distinguished from *Commercial Bills* (q. v.). They are sometimes drawn against balances maintained with the drawee bank, but more often are not, being in the nature of an advance from a bank in one country to a bank in another. Finance bills are usually unsecured (up to a maximum limit), but sometimes bonds, stocks, or other collateral are pledged as security. The drawee bank accepts a finance bill for a fixed commission, but only of course when the drawing bank enjoys a high credit rating. Thus a finance bill is drawn for the purpose of raising funds to establish additional balances at home or abroad.

### Finance Committee

See Savings Banks.

### Finance Company

A term used to denote several different types of institutions. It is sometimes employed in this country to denote a *Holding Company* (q. v.), and also a *Commercial Credit Company* (q. v.). In England the term usually refers to a company dealing in corporate securities.

### Financial Advertising Agencies

Advertising specialists which devote their exclusive attention to financial advertising. With the growing tendency toward greater competition among banks for business and their consequent aggressive attitude, and the overcoming of conservatism and prejudice against advertising, a large number of advertising agencies specializing in the financial field, have been established in recent years.

The services provided by these agencies is broadly of two types, individual and syndicated. Some of the more important types of services provided by these agencies are: newspaper layout and mat service, magazine layout and mat service, circular letters on various subjects, business and financial reviews, house organs, statement enclosures, window displays, pamphlet series covering special subjects, *e. g.*, investments, savings,

trusts, custodianships, letters of credit, wills, etc. (See Advertising Department, Publicity Department.)

### Financial Chronology

1786—Establishment of the double standard with a ratio of 1 to 15¼.

1792—Adoption of the ratio of 1 to 15 and establishment of a mint with free and gratuitous coinage; the silver dollar equal to 371¼ grains fine, the eagle to 247½ grains fine.

1792-1812—The First Bank of the United States. (See Bank of the United States.)

1805—Cessation of coinage of the silver dollar. By the operation of *Gresham's Law* (q. v.) most of these coins had already been exported in the trade with the West Indies.

1812-1816—Period of rapid expansion of state banks.

1816-1836—The Second Bank of the United States. (See Bank of the United States.)

1834—Substitution of the ratio of 1 to 16 for that of 1 to 15 by reducing the weight of the eagle from 270 grains to 258 grains, the present weight.

1836—Coinage of the silver dollar renewed.

1837—Fineness of gold coins raised from 0.899225 to 0.900, and silver coins from 0.8924 to 0.900, giving a ratio of 1 to 15.988+ between gold and silver, and fixing the standard weight of the silver dollar at 412½ grains.

1847—Discovery of gold in California.

1851—Discovery of gold in Australia.

1853—Lowering the weight of silver coins of less than \$1, to the extent of 7 per cent., and limitation of their legal tender power to \$5.

1853—Maximum gold production reached in California, when it amounted to \$65,000,000.

1861—Issue of United States Government "demand notes".

1862—United States Government begins to issue "legal tender notes" or "greenbacks".

1862-1879—Period of suspension of specie payments.

1863—National Bank Act passed.

1864—National Bank Act revised.

1866—Act to provide for the gradual retirement of "greenbacks". This act was suspended by the act of 1868.

1873—Panic.

1873—Increase of the intrinsic value of the subsidiary coins of the United States. Replacing of the double standard by the gold standard. Reduction of the cost of coinage of gold to one-fifth per cent. Trade dollar of 420 grains with a fineness of 0.900 authorized and coined.



1875—Act abolishing coinage charge of one-fifth per cent.

1875—Act providing for resumption of specie payments on January 1, 1879, passed. This act provided for the reduction of greenbacks to \$300,000,000. The act of 1878 stopped this reduction. The amount then, as now, outstanding was \$346,681,016.

1878—*Bland-Allison Act* (q. v.) passed. The coinage of silver on private account abolished.

1879—Resumption of specie payments.

1890—*Bland-Allison Act* repealed. *Sherman Silver-Purchase Act* (q. v.) passed.

1893—Panic. The "endless chain" of redemption of United States notes at the Treasury. Repeal of the silver purchase provision of the Sherman act of 1890.

1900—Gold Standard act by which the gold standard was formally adopted, passed.

1903—*Rich Man's Panic* (q. v.).

1907—Panic. Issue of clearing house loan certificates.

1908—Act providing for emergency note issue by National banks. Appointment of the *National Monetary Commission* (q. v.).

1913, December 23—Federal Reserve Act.

1914, October 15—Clayton Anti-Trust Act.

1916, May 15—Kern Amendment to Clayton Anti-Trust Act.

1916, July 17—Federal Farm Loan Act.

1917, April 24—First Liberty Loan Act.

1917, September 24—Second Liberty Loan Act.

1918, April 4—Third Liberty Loan Act.

1918, April 5—War Finance Corporation Act.

1918, April 23—*Pittman Act* (q. v.).

1918, September 24—Trading with the Enemy Act.

1919, March 3—Victory Loan Act.

1919, December 24—*Edge Act* (q. v.) or Section 25 (a) of the Federal Reserve Act, creating Federal foreign banking corporations.

1919, December 24—Gold certificates made legal tender.

1920, May 29—Act to abolish sub-treasuries on June 30, 1921.

1923, March 4—Federal Agricultural Credits Act.

## Financial Legislation

See Bank Law, Financial Chronology.

## Financial Magazines

The principal banking, financial, economic and business magazines published in the United States (including several English publications) are listed below:

Administration (monthly).  
 American Banker (weekly).  
 American Economic Review (quarterly).  
 American Acceptance Bulletin (monthly).  
 American Industries.  
 Annalist (weekly).  
 Arkansas Banker (monthly).  
 Banker-Farmer (monthly).  
 Banker and Financier (semi-monthly).  
 Banker and Manufacturer (monthly).  
 Bankers Home Magazine (monthly).  
 Bankers Magazine (monthly).  
 Bankers Magazine (London) (monthly).  
 Bankers Monthly.  
 British Columbia Financial Times (semi-monthly).  
 Bradstreet's (weekly).  
 Bulletin of the American Institute of Banking (quarterly).  
 Bulletin of the Investment Bankers Association (monthly).  
 Banking Law Journal (monthly).  
 Burroughs Clearing House (monthly).  
 California Bankers Association Bulletin (monthly).  
 Central Banker (monthly).  
 Chicago Banker (weekly).  
 Clearing House (quarterly).  
 Coast Banker (monthly).  
 Commerce and Finance.  
 Commerce Monthly.  
 Commercial and Financial Chronicle (weekly).  
 Credit Guide.  
 Credit Monthly.  
 Credit World.  
 Daily Bond Buyer.  
 Dow's Banking News (monthly).  
 Dun's Review.  
 Economic Review.  
 Economic World.  
 Economist (Chicago) (weekly).  
 Economist (London) (weekly).  
 Federal Reserve Bulletin (monthly).  
 Financial Advertising.  
 Financial Age (weekly).  
 Finance and Industry (weekly).  
 Financial World (weekly).  
 Financier.  
 Forbes Magazine.  
 Hoosier Banker (monthly).  
 Investment News (weekly).  
 Investor and Trader.  
 Iowa Bankers Association Bulletin.  
 Journal of the American Bankers Association (monthly).  
 Journal of the Canadian Bankers Association (quarterly).  
 Journal of the Institute of Bankers (London) (monthly).

Journal of Political Economy (monthly).  
 Kansas Banker (monthly).  
 Kentucky State Bankers Association Bulletin (monthly).  
 Magazine of Wall Street (bi-monthly).  
 Michigan Banker (monthly).  
 Michigan Investor.  
 Mid-Continent Banker (monthly).  
 Minnesota Banker (monthly).  
 Mississippi Banker (monthly).  
 Montana Banker (monthly).  
 Money and Commerce (weekly).  
 Mountain States Banker (monthly).  
 National Counterfeit Detector (monthly).  
 National Financial News.  
 Nebraska Bankers Association Record.  
 North Dakota Banker (monthly).  
 Northwestern Banker (monthly).  
 New York Safe Deposit Association Bulletin (monthly).  
 Ohio Banker (monthly).  
 Oklahoma Banker (monthly).  
 Pacific Banker (weekly).  
 Political Science Quarterly.  
 Quarterly Journal of Economics.  
 Real Estate Record and Guide.  
 Robert Morris Associates Monthly Bulletin.  
 Savings Bank Journal.  
 Southern Banker (monthly).  
 Southwestern Bankers Journal (monthly).  
 Street.  
 State Banker (monthly).  
 Statist (London) (weekly).  
 Texas Bankers Record (monthly).  
 Trans-Mississippi Banker (monthly).  
 Trust Companies (monthly).  
 United States Investor (weekly).  
 Western Banker and Financier (monthly).  
 Weather, Crops and Markets (weekly).

### Financial News

See Financial Magazines, Financial Newspapers, Ticker.

### Financial Newspapers

The principal daily financial newspapers exclusively devoted to financial subjects and published in the United States are: Wall Street Journal, Boston News Bureau, Journal of Commerce, New York Record, New York Commercial, Daily News Record, Financial America, and Chicago Journal of Commerce.

### Financial Responsibility

A term used among bank credit men to indicate the financial worth, *i. e.*, the conservatively appraised net assets, of a credit risk. It is the ability of a borrower or pros-

pective borrower to pay his debts based on his wealth or property. Financial responsibility is measured by the *Property Risk* (q. v.). (See Credit.)

### Financial Solvency

The normal condition of a business when current assets are in excess of current liabilities as disclosed by a true and correct financial statement. Financial solvency is to be distinguished from *Business Solvency* (q. v.). (See Solvency.)

### Financial Statement

Another term for a balance sheet, statement of condition, and statement of resources and liabilities. (See Balance Sheet, Bank Statement.)

### Financier

One skilled in *Finance* (q. v.), but the term is particularly applied to one engaged in promoting and underwriting.

### Fine

The degree of purity or fineness of a metal expressed in terms of parts, percentages, or carats. Fine gold is 100 per cent. pure, or unalloyed; gold which is 24 carats. (See Carat, Fineness.)

### Fine Gold

See Fine, Fineness.

### Fineness

The amount of pure metal in a bar, ingot or coin; the degree of purity of a metal as expressed in terms of parts, percentages, or carats. The gold and silver coins of the United States are nine-tenths fine, meaning that they contain nine parts or 90 per cent. pure gold, and one part or 10 per cent. alloy. English gold coins are eleven-twelfths fine. Standard bullion is nine-tenths fine. (See Coinage, Fine, Mint Fine Bars, Present Standard of Weight and Fineness, Standard Bullion.)

### Finger Print Identification

A method adopted by a number of savings banks as a means of certain identification, especially of foreign-born and illiterate depositors. Many savings banks located in districts serving a foreign population have experienced difficulty and suffered losses by reason of withdrawals from savings accounts by wrongful parties. Test questions in connection with withdrawals from savings ac-



counts by illiterate depositors have been used for many years, but they have not always proved satisfactory, especially where the depositors are unable to speak English.

Finger print identification is based upon the persistence of the skin patterns of the fingers, which do not change during the life of the individual, and which are different for each individual. Scratching and laceration do not ordinarily obliterate these patterns. The finger print is taken at the time an account is opened upon the signature card, which contains the usual additional information *e. g.*, residence, references, occupation, etc. At each withdrawal a finger print impression is taken and compared with the original without inconvenience to the depositor. While finger print impressions display infinite variations and appear to be complicated, with a little study differences can be detected with comparative ease.

The finger print system of identification removes the chief objection of savings banks in accepting accounts with illiterates.

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#### Finmark

See Foreign Moneys—Finland.

#### Fireworks

A stock market expression which denotes the soaring of prices in a single security or group of securities; a rapid advance in prices.

#### Firm

This term has two meanings:

(1) A partnership; a business or professional association of two or more persons as distinguished from an incorporated company. (See Partnership.)

(2) An expression which denotes steadiness in security or produce quotations. Prices are firm when they are stable, and resist decline, tending upward rather than downward. Though somewhat illogical in view of its derivation, a firm market usually implies one in which prices are fractionally higher; it is mid-way between a strong when prices are rising, and a steady market when prices are stationary.

Money is firm when interest rates hold stationary.

#### Firm Bid

See Offered Firm.

#### First and Consolidated Mortgage Bonds

Bonds secured by a first mortgage on a part or parts of such properties (usually of railroads) as have been consolidated, and by a second or even third mortgage upon the rest. These bonds are practically the same as *General Mortgage Bonds* (q. v.).

#### First and General Mortgage Bonds

Bonds secured by a first mortgage on a part of the property of the issuing corporation (usually a railroad) and by general mortgage on the rest. Such bonds are sometimes issued by a railroad in financing a new extension. A first mortgage is placed upon the new property, and if the previous mortgages upon the old property are of the open type, the remaining equity in the previously mortgaged property is used as further security. These bonds are also known as *General and First Mortgage Bonds*.

#### First and Refunding Mortgage Bonds

Bonds secured by a first mortgage on a part of the property of the issuing corporation (usually a railroad), but constituting a junior lien upon other parts, the debt upon which is being refunded. These bonds are practically synonymous with *First and Consolidated Mortgage Bonds*, except that the latter issue is not a refunding issue. (See *Refunding Bonds*).

#### First Bank of the United States

See *Bank of the United States*.

#### First Board

On exchanges will deal in futures, the delivery dates for the various positions are designated in advance by the exchange authorities. The first call for cotton, grain, or sugar is often known as the first board.

The term is also used to indicate the first printed sales occurring on the New York Stock Exchange, *i. e.*, those between the 10 A. M. and noon.

#### First-Class Paper

Gilt-edged paper made or indorsed by concerns which enjoy a nation-wide reputation for their products, financial responsibility, and credit standing, as distinguished from second and third class paper indorsed by names of companies not so well known and with less financial responsibility. This term is used primarily in connection with commercial paper marketed by note brokers.

### First Consolidated Mortgage Bonds

The first (in point of time) consolidated mortgage bonds issued by a corporation (usually a railroad). Such bonds do not necessarily represent a first lien upon the mortgaged property, since in most cases only a part of the pledged property is secured by a first mortgage. They are practically synonymous with First and Consolidated Mortgage Bonds, but should not be confused with *Consolidated First Mortgage Bonds* (q. v.).

### First General Mortgage Bonds

Literally, the first (in point of time) general mortgage bonds issued by a corporation (usually a railroad). They are in no sense bonds secured by a first mortgage. Since general mortgage bonds represent in part a second or even lesser claim upon the mortgaged property, it is not likely that an issue of second general mortgage bonds would ever be floated. It is, therefore, an equivocal title. (See General Mortgage Bonds.)

### First Lien

The first claim or right against property. A first mortgage bond represents the first claim to the assets and earnings of a corporation, after the preferential claims (taxes, wages, etc.) have been satisfied. (See Lien.)

### First Lien and General Mortgage Bonds

Bonds which constitute a first lien (or are a first mortgage) on a part (usually a small part) of the property of the issuing corporation and a general mortgage upon the rest. These bonds are the same as *First and General Mortgage Bonds* (q. v.).

### First Mortgage Bonds

Bonds secured by a first mortgage upon all or part of the property, as well as earnings, of the issuing corporation. While first mortgage bonds are secured by property (usually real estate but sometimes chattels and current assets), they are not necessarily always first class investments. A second or even third mortgage bond of one corporation may be entitled to a higher investment rating than a first mortgage bond of another. A first mortgage security on a given property, however, is superior to any other security on the same property. The soundness of a first mortgage bond as an investment depends upon the value of the property serving as security in excess

of the total par value of the bonds issued, the range of fluctuation of earnings, the margin of average earnings over the combined operating expenses and fixed charges, and the probability of certain retirement of the bond at maturity. While foreclosure proceedings may be instituted upon default in payment of either interest or principal of a mortgage bond, there is always danger of loss because of the possible shrinkage in value of the property upon sale, and the delay and costs incident to legal action. (See Second Mortgage Bonds.)

### First Mortgage Trust Bonds

Bonds which are secured by a deposit of other bonds which in themselves are secured by a first mortgage. In other words these bonds are collateral trust bonds, the collateral for which consists of first mortgage bonds.

### First of Exchange

Foreign bills of exchange and checks are usually issued in duplicate sets and sometimes in triplicate sets. The purpose of this practice is to insure the ultimate arrival of the bill of exchange at the foreign point where it is payable. Duplicate bills with duplicate documents attached are transmitted on separate steamers to avoid inconvenience in case one ship is delayed and as a form of marine insurance—since it is not likely that both steamships will meet with a marine disaster. The first bill presented is paid, whether original, duplicate, or triplicate, *i. e.*, any of the set is payable if the others are unpaid. When one of the set is paid, a stop is automatically placed on the others. The duplicate bills are referred to as "First of Exchange", "Second of Exchange", or as "Original" and "Duplicate". When only one bill of exchange is issued it is called *sola*, *sole*, or *solus*. (See Bills is a Set, *Sola*.)

### First Preferred Stock

See Preferred Stock.

### First Refunding Mortgage Bonds

The first (in point of time) refunding bonds issued by a corporation (usually a railroad or public utility). This title is misleading and does not mean that the bonds are secured by a first mortgage, as does the title *Refunding First Mortgage Bonds* (q. v.).

### First Teller

Another title sometimes given to the paying teller for the reason that he assumes



greater responsibility and usually receives a higher salary than any of the other tellers. (See Paying Teller.)

### Fiscal Agent

Financial agent. A bank or trust company may be appointed to take general or special charge of the finances of a corporation client in accordance with any agreement which may be made between them. Acting as treasurer, a bank or trust company may perform such disbursing functions as paying bonds and coupons at maturity, bonds which have been called for redemption, dividends, interest on registered bonds, rents, etc. It may also receive sinking fund installments. The fiscal agent function is one of the corporate trust functions.

### Fiscal Year

A term used to indicate the accounting year as distinguished from the calendar year, with which it may or may not coincide. The fiscal year is any annual period which a business or Government or sub-division thereof may select as a basis for closing its books in order to determine the results of operations and financial condition. Although most business enterprises close their books and take a physical inventory only at the close of the fiscal year, financial statements are often prepared monthly or quarterly without involving a closing of the books. The fiscal year of the United States closes June 30th. With most businesses, the fiscal year corresponds with the calendar year.

### Fitch Bond Book

See Manuals.

### Five Per Cent Redemption Fund

A cash fund from which National bank notes and Federal Reserve bank notes are redeemed by the United States Treasury when and if presented for redemption. Every National bank and every Federal Reserve bank is required to maintain on deposit in gold or lawful money a sum equal to at least 5 per cent. of its circulating notes secured by Government bonds. This fund earns no interest for the issuing bank and cannot be considered a part of its reserve against deposits. If bank notes are redeemed by the United States Treasury Department, thereby depleting the fund, the issuing bank must replenish it. (See Federal Reserve Bank Notes, National Bank Notes.)

### Fixed Assets

Assets used for carrying on a business; non-trading assets, *e. g.*, land, buildings, machinery, equipment, furniture, fixtures, etc. These assets are of a permanent nature and are to be distinguished from current assets since they will not, in the ordinary course of business, be converted into cash. They are also known as permanent, property, and capital assets.

### Fixed Capital

Capital invested in fixed, as distinguished from current assets; the excess of fixed assets over fixed liabilities. Fixed capital is that usually furnished by the stock and bondholders, while working capital required for investment in current assets in part may be furnished by banks, or through the commercial paper market, on short-term paper. Fixed capital is regarded as "tied up" or "locked up" and consequently must be furnished permanently or for a long period of time. It is for this reason that stock and bondholders contribute fixed capital to a business. (See Capital.)

### Fixed Charges

The expenses of an enterprise which are constant without regard to the volume of business transacted as distinguished from operating expenses, which fluctuate directly, if not proportionately, with the volume of output. Fixed charges usually consist of interest on bonded debt, taxes and rentals. Some accountants include also sinking fund charges and insurance. Since sinking fund charges really are a means of extinguishing debt, it seems more logical to segregate this item as a special charge. Insurance is more usually regarded as an administrative expense.

This term is generally used in connection with railroad finance since in this business fixed charges require a large proportion of the gross earnings. Railroad statistics show that fixed charges usually equal from 5 to 10 per cent. of gross earnings. Under favorable conditions a railroad's fixed charges should not exceed 50 per cent. of its net earnings.

### Fixed Income

Income which does not fluctuate in accordance with the general price level. Those whose income is wholly dependent upon the return from bonds, annuities, or stocks, are said to have a fixed income. While business incomes and wages tend to rise and fall with

the general price level, fixed incomes do not. The fixed income class also includes Government employees, teachers, ministers, etc., whose salaries stubbornly resist adjustment to changes in the general price level. A period of low prices is beneficial, and a period of high prices disadvantageous to those having a fixed income.

### Fixed Liabilities

Liabilities which do not mature within a short time, usually one year; long-term liabilities, *e. g.*, bonds, bonds and mortgages, and long-term notes. Sometimes capital stock is erroneously treated as a fixed liability, but it is more properly known as a capital liability. Strictly it is not a liability at all, but rather an accountability of a corporation to its stockholders. It has no maturity and stockholders cannot enforce payment so long as the corporation is a going concern; even in liquidation their claims are postponed till the creditors are satisfied in full.

Bonds or notes maturing within a year should not be considered as fixed liabilities, unless they are certain to be refunded.

### Fixtures

Any property or improvement affixed or attached to real estate so that it cannot be removed without damage to the real estate. On a farm, buildings, fences, wells, etc., are fixtures.

The fixtures of a bank, *e. g.*, vault, furniture, cages, etc., are not usually carried as assets, but are charged immediately to the expense account. This results in the creation of a "secret reserve," *i. e.*, assets not disclosed by the books of account.

### Flat

A term used in bond transactions to denote that the price includes any interest accrued since the last interest date. Bonds are usually sold at a price exclusive of accrued interest, the accrued interest at the coupon rate being added. On the other hand, stocks are usually sold flat, *i. e.*, exclusive of any accrued dividend. (See Accrued Interest.)

### Fleece

A stock market expression in bad odor meaning to take advantage of the innocent amateur in speculation who "goes it blindly" and is either uninformed or misinformed. (See Lamb.)

### Flier

A plunge in stocks; a reckless commitment in stocks. A purchase or sale of a highly speculative security with the hope of making a large profit, but with the full understanding that a correspondingly large loss is equally possible. A stock market commitment undertaken with full realization of its speculative nature out of a spirit of gambling and with a gambler's chance of winning.

### Float

This term has two meanings:

(1) To market securities; to offer for sale an issue of bonds or stock to investors for the purpose of raising capital. Securities may be floated by an underwriting syndicate or securities company, or by the issuing organization direct, *i. e.*, "over the counter." Government issues are floated through the agency of the Federal Reserve banks. (See Syndicate, Underwriting.)

(2) An account also known as floating account which holds the out-of-town checks outstanding in process of collection. Banks forward out-of-town checks for collection either through correspondent banks or Federal Reserve banks, as collecting agents. While such checks are in transit, *i. e.*, in the process of becoming collected and converted into cash, they are known as the "float", and represent contingent rather than actual assets. They cannot be counted as reserve and must be segregated from cash balances. The "float" or aggregate of out-of-town items in process of collection is held in two general ledger accounts entitled Due from Banks, Collections; and Federal Reserve Bank, Collections.

The Federal Reserve banks also have a float account consisting of the aggregate of out-of-town items which are in the process of collection for member banks. Before the *Federal Reserve Check Collection System* (q. v.) was in operation, the float for the country as a whole amounted to a very large figure, due to the fact that checks were often out a month or more before presented for final payment. The Federal Reserve check collection system has greatly reduced the outstanding float and accelerated the collection of checks by insuring prompt presentation and because of the quick availability made possible by the daily inter-district settlement through the *Gold Settlement Fund* (q. v.) The Federal Reserve check collection system has also reduced the loss in the use of funds and consequently secured greater economy in the employment of bank



funds for exchange purposes, which has been reflected in lower exchange rates. (See Federal Reserve Check Collection System, Due from Banks Collections Account, Federal Reserve Bank Collections Account, Transit Department.)

### Floating Assets

Same as quick or *Current Assets* (q. v.)

### Floating Capital

Capital invested in current as distinguished from fixed assets. Economists refer to floating and circulating capital as that which is constantly being turned over by sale, *i. e.*, capital used for trading purposes. John Stuart Mill says that floating capital "does its work not by being kept, but by changing hands." Floating capital is also known as circulating capital and is vaguely equivalent to *Working Capital* (q. v.).

### Floating Charge

A term used chiefly in England to denote an unsecured debt, *e. g.*, debenture bonds.

### Floating Debt

The aggregate of current indebtedness, whether accounts or notes payable, or other current accruals, of various current maturities, as distinguished from funded debt, unfunded debt or current liabilities maturing within the current year. The term is used of the short term indebtedness of a business corporation or of a Government, state or municipality.

### Floating Supply (of Securities)

That portion of the listed stocks or bonds of a corporation which is available for trading and speculation, *i. e.*, in the hands of brokers and speculators, as distinguished from investors. A large part of the securities, and especially stocks, of large corporations is never purchased outright by investors, but is carried on margins. Whatever amount is so carried by brokers on margin for the account of customers, constitutes the floating supply. Stocks owned outright, retained in safe deposit boxes, and not placed on the market, or subject to speculative commitments, do not constitute floating supply.

The floating supply of some securities is small. This is true of the securities of the investment class, or those which for some other reasons are closely held. The floating supply sometimes is so small that a premium is charged for borrowing. This occurs when

short selling has been excessive and brokers find it difficult to borrow stock from ordinarily available sources with which to make delivery.

### Float Ledger

See Collection Ledger.

### Floor

A term to signify the floor of an exchange where brokers engage in trading. Only members of the exchange are admitted to the floor with the exception of necessary clerks and other employees.

### Floor Broker

A *Two-Dollar Broker* (q. v.).

### Floor Trader

A member of the stock exchange who trades exclusively for his own account, not accepting orders for customers, as distinguished from a commission broker who maintains a commission house and trades only for the accounts of his customers. These brokers constitute what are known as professionals. By their close contact with the market and their knowledge of its technical position, they are able to take advantage of the slightest change in prices. They are also known as room traders.

### Florin

This term has two meanings:

(1) A Netherlands coin. (See Foreign Moneys—table 2.)

(2) An English coin. (See English Money Table.)

### Fluctuating Principle

The factor or factors which are responsible for the range of price fluctuation, *i. e.*, movement up and down, of a security. Different classes of both bonds and stocks are subject to a certain price range, *i. e.*, upward and lower limit of price fluctuation. The chief factor determining the fluctuating principle of bonds is interest rates, and of stocks, general business conditions. There are secondary factors, however, which must be taken into consideration. While the fluctuating principle in civil bonds is restricted almost solely to interest rates, in the case of corporation bonds general business conditions and the earnings of the issuing corporations are also determining factors. The fluctuating principle in stocks is influenced by general business conditions, earnings of the corpora-

tion in question, call money market, stability of the enterprise, and technical conditions within the market. The fluctuating principle is sometimes a special factor; thus, a convertible bond is subject to fluctuation in accordance with the movement of the stock into which it is convertible.

To illustrate the meaning of fluctuating principle and its use in determining investment values and speculative possibilities, the following list showing the percentage of decline in the most important classes of securities from top to bottom in the bear movement of 1906-1907 is given\*:

United States Bonds.....	5.0%
State Bonds .....	8.0%
Municipal Bonds .....	11.0%
Railroad Bonds (Underlying liens)....	12.5%
Railroad Bonds.....	15.7%
Industrial Bonds .....	24.0%
Bank Stocks.....	24.0%
Railroad Preferred Stocks.....	28.5%
Industrial Preferred Stocks.....	34.0%
Railroad Common Stocks.....	41.0%
Industrial Common Stocks.....	48.5%
Mining Stocks .....	64.2%

**Fluctuation**

The variation in prices up and down. One-eighth point is the smallest variation in price recognized on the New York Stock Exchange.

**Fluid Assets**

See Current Assets.

**Fluid Capital**

See Floating Capital.

**Flurry**

A commotion in prices; a sudden and sharp advance or decline of prices on a stock market or commodity exchange, due to temporary alarm or enthusiasm, *e. g.*, a sharp advance in money rates, a favorable political event, etc. A flurry is of short duration, without effect on fundamental market conditions, and produces no lasting effect.

**Flush Production**

A term applied to an oil well or to the oil properties of a company to indicate that the period of time which it will last and the rate of output is uncertain; unsettled production.

**Fly-by-Night Corporation**

A stigmatic term used with reference to a business organized to exploit a highly

speculative, unsound, or temporary venture and controlled by officers who have little or no moral or financial responsibility; a corporation having a shady personnel and which is not likely to succeed and therefore likely to be of short duration. The term is especially used among bank credit men of a corporation of doubtful or worthless credit standing, without any of the elements necessary to make a good credit risk and therefore not entitled to credit.

**For a Turn**

An expression used to indicate a speculative purchase or sale for the purpose of making a small but quick gain.

**For Cash**

Securities or commodities purchased outright for transfer and delivery immediately, for which cash is paid in full. Deliveries of securities purchased for cash must be made by the seller to the buyer on the day of the sale.

**Forced Circulation**

Fiat money; money which is not supported by a special reserve, but which is legal tender in payment of all debts and forced into circulation. This type of money has not been in circulation in this country since the Civil War.

**Forced Liquidation**

Urgent selling; when owners of securities or commodities are obliged to sell their holdings for cash in order (1) to obtain funds necessary for other purposes; (2) because carrying charges (usually interest rates) have advanced so that it is no longer profitable to hold them; (3) to prevent the complete exhaustion of margins in case of a falling market; or (4) to stop further loss.

**Forced Sale**

A sale of property or assets compelled by certain circumstances such as (1) sale of mortgaged property in default as a result of foreclosure, for the purpose of satisfying creditors; (2) voluntary sale of a debtor's property to satisfy creditors; and (3) sale of merchandise to prevent moving it to another site in the case of expiration of a lease. Forced sales may be accomplished by means of an auction, closing out sales, etc., it being generally understood that the owner must make some sacrifice in order to realize quickly. (See Forced Liquidation.)

\* Paul Clay: *Sound Investing*.



### Foreclosure

A legal term to denote the process of law by which the right of a mortgagee, or anyone having interest in a mortgage (such as a mortgage bondholder) when the conditions of the mortgage have been violated, to compel the mortgagor to redeem the pledge or to forfeit his right of redemption. It is a privilege given to the mortgagee upon default in the payment of interest or principal of a mortgage to enforce payment of the debt by selling the property which it secures. In most states the property covering the mortgage may be sold under a power contained in the mortgage itself, but in other states, the mortgagee must apply to the courts for an order for foreclosure. The proceeds of sale of mortgaged property are applied first to the indebtedness secured by the mortgage and the foreclosure expenses, and the balance is paid to the mortgagor.

It is not always possible in a foreclosure sale to realize a sufficient sum to satisfy the mortgagee in full. In this event the mortgagee has an unsecured claim against the mortgagor for the remainder. (See Deed of Trust, First Mortgage Bonds, Mortgage.)

### Foreign Agencies

Agencies of domestic banks located in foreign countries. A National bank is authorized to establish agencies, as distinguished from branches, for specific purposes, but not to carry on a general banking business, in foreign countries. Federal Reserve banks may, with the approval of the Federal Reserve Board, establish foreign agencies or correspondents, and open and maintain accounts with them for the purpose of purchasing, selling and collecting bills of exchange. Federal Reserve banks may also open and maintain accounts for, and act as agents of, foreign banks established in this country. The Federal Reserve bank of New York maintains accounts with and for ten foreign banks. (See Foreign Branches.)

### Foreign Banking Corporations\*

Corporations organized under the *Edge Act* (q. v.) and the various state banking

\* To date two foreign banking corporations have been organized under the *Edge Act*, viz: First Federal Foreign Banking Association of New York, and Federal International Corporation of New Orleans. Some of the foreign banking corporations organized under state laws are: American Foreign Banking Corporation, Asia Foreign Banking Corporation, French-American Banking Corporation, International Banking Corporation, Mercantile Bank of Americas, Park Union Foreign Banking Corporation, Shawmut Corporation, Discount Corporation of New York, International Acceptance Bank.

laws to engage in the foreign banking business. The powers of these corporations, described under *Edge Act*, are practically the same whether organized under federal or state jurisdictions. Their purpose is to stimulate foreign trade by providing a machinery for extending credit to importers and exporters for periods longer than is permitted by sound commercial banking practice. These corporations relieve the commercial banks from carrying the entire burden of financing foreign trade, setting them free to concentrate in the business for which they were originally designed—to finance domestic trade.

Foreign banking corporations organized under the laws of other nations with branches established in this country, must comply with the laws of the state in which such branch is located. Usually a license fee, evidence of authority from the nation of incorporation, and consent to submit reports upon request, are required.

### Foreign Bill

See Inland Bill.

### Foreign Bills of Exchange

First read *Bill of Exchange*.

Bills of exchange drawn on a foreign drawee, and payable in a foreign country. They are the chief means by which settlements are made in international trade. Foreign bills of exchange are classified in many different ways, giving rise to much confusion among laymen, due to the fact that these classifications are not mutually exclusive, but on the contrary, overlap.

The following are five important classifications:

#### I. *As to Class of Maker*

1. Government or Official Bills.
2. Bankers' Bills (including traveler's checks).
3. Commercial Bills.
4. Express Company Drafts.
5. Shipping Bills.
6. Postal Money Orders.

#### II. *As to Maker's Purpose and Types of Transactions out of Which Bills Arise*

1. Drawn against Funds, Balances, or Accounts.
  - a. Cables.
  - b. Checks.
  - c. Commercial Bills.
2. Drawn for Borrowing Purposes.
  - a. Finance Bills.
  - b. Reimbursement Bills.

3. Drawn against Merchandise.
  - a. Cotton Bills.
  - b. Steel Bills.
  - c. Grain Bills.
  - d. Breadstuffs Bills.
  - e. Petroleum Bills.
  - f. Machinery Bills, etc.
4. Drawn against Services.
  - a. Ocean Freight Bills.
  - b. Marine Insurance Bills.
  - c. Bankers' Commissions Bills.
  - d. Merchants' Commissions Bills.
  - e. Masters' Drafts.
5. Drawn against Securities.
  - a. Purchase and sale of stocks and bonds.
  - b. Dividend and interest remittances.

### III. *As to Security*

1. Clean Bills.
2. Documentary Bills (shipping documents attached).
3. Bills with securities or other valuable documents attached (including insurance policies, matured coupons, bonds, mortgages, etc.).

### IV. *As to Maturity.* (Time of Payment.)

1. Cables.
2. Sight, Demand, or Presentation Bills (checks).
3. Arrival Bills (shipping documents attached).
4. Time Bills.
  - a. Short Bills (less than 30 days after sight or date).
  - b. Long Bills (30 days or more after sight or date).
  - c. Days after date Bills.

### V. *As to Domicile.* (Place of Payment.)

1. Domestic Bills in foreign currency.
2. Foreign Bills payable in—
  - a. Dollars.
  - b. Sterling.
  - c. European Decimal Currencies.
  - d. Other Countries.

None of the above classifications is mutually exclusive, and it is possible, for instance, to have a 60 day sight bill, drawn in sterling on a commercial house, supported by documents growing out of a shipment of cotton, and payable in London. This may be referred to as a foreign bill, sterling bill, commercial bill, documentary bill, long bill, time bill, or cotton bill. It is each and all at the same time.

The following is a general classification of foreign bills:

### I. *Commercial Bills.*

1. Documentary Bills.
  - a. Short (demand or within 30 days sight).
    1. Documents against acceptance Bills.
      - a. Discountable abroad.
      - b. Held abroad until maturity without discount.
      - c. Not discountable abroad because not in native currency.
    2. Documents against payment Bills—not discountable abroad.
    3. Documents on arrival—not discountable abroad on account of indefinite maturity.
  - b. Long (30 days sight or more).
    1. Documents against acceptance Bills.
      - a. Discountable abroad.
      - b. Held abroad until maturity without discount.
      - c. Not discountable abroad because not in native currency.
    2. Documents against payment—rarely over 90 days.
    3. Days after date Bills.
      - a. Discountable abroad.
      - b. Held abroad until maturity without discount.
      - c. Not discountable abroad because not in native currency.
2. Clean Bills.
  - a. Cables.
  - b. Checks.
  - c. Sight, Demand, or Presentation Bills.
  - d. Time Bills.
    1. Discountable abroad.
    2. Held abroad until maturity without discount.
    3. Not discountable abroad because not in native currency.

### II. *Bankers' Bills.*

1. Tenor (term).
  - a. Cables.
  - b. Checks.
  - c. Short Bills (within 30 days sight).
  - d. Long bills (30 days sight or more).
2. Purpose.
  - a. Against current balances.
  - b. Against open credits—Finance Bills.

(See Banker's Bill, Clean Bill of Exchange, Commercial Bills, Documentary Bills, Documentary Commercial Bills, Domicile, Grain Bills, Finance Bill, Foreign Exchange, Sterling Bills.)

### Foreign Bonds

See Foreign Corporate Bonds, Foreign Government Bonds.



### Foreign Branches

Branches of domestic banks located in foreign countries or branches of foreign banks located in this country.

National banks having a capital and surplus of at least \$1,000,000, may establish branches in foreign countries and in the insular possessions of the United States, by permission of the Comptroller of the Currency and under the regulations of the Federal Reserve Board, but very few have exercised this privilege to date. The laws of some of the states, *e. g.*, New York, also permit state banks and trust companies under their jurisdiction to establish branches in foreign countries, provided certain capital requirements are met. In New York state, a state bank or trust company must have a capital and surplus of \$1,000,000 and obtain the written consent of the Superintendent of Banks.

For branches of foreign banks established in this country see *Foreign Banking Corporations*.

### Foreign Collection Items

See Foreign Collections.

### Foreign Collections

A term which includes two classes of items: (1) bills of exchange payable abroad and taken by a bank for collection only, *i. e.*, for credit (or payment) to the account of the customer only when and if paid abroad; and (2) bills of exchange payable in the United States taken from foreign correspondents for credit (or payment) to their accounts only when and if paid. The former are sometimes called "outgoing" or "export" collections, and the latter, "incoming" or "import" collections.

Foreign collection items consist of commercial bills of exchange with and without documents attached, money orders, matured bond coupons, matured bonds and bonds called for redemption, travelers' checks, etc. Commercial bills taken for collection arise through the fact that the drawer has no established line of credit, is unable to give adequate guarantees, and therefore cannot sell his bills, or that the goods against which the bill is drawn have been sold on a C. O. D. basis, or that the maker or indorser of the bill desires to earn interest on the bill that would have been surrendered through its sale or discount. Frequently interest is added to the face of time bills taken for collection for the time elapsing between its presentation to the drawee and the approximate due date of

the arrival of the return remittance to the collecting bank in this country.

### Foreign Corporate Bonds

Bonds of business corporations of foreign countries. A number of investment houses in New York City specialize in these issues.

### Foreign Correspondents

A bank in a foreign country selected to act as agent for a domestic bank, and in which balances are maintained. (See Correspondent.)

### Foreign Department

The department of a bank or trust company which handles that part of the business which originates in, or is destined to, a foreign country. A completely equipped foreign department is prepared to perform practically all the banking operations that a domestic banking department performs, except in smaller volume, and its scope is therefore as broad as the banking business itself.

The chief functions of a foreign department are: (1) to discount and make advances against clean and documentary bills of exchange drawn against banks, corporations, firms, and individuals in foreign countries; (2) to issue commercial and travelers' letters of credit; (3) to accept bills of exchange drawn under letters of credit; (4) to buy and sell gold bullion; to buy and sell foreign coin and currency; (5) to sell checks, mail payments, money orders, and cables on foreign banks; and (6) to collect bills of exchange, checks, foreign bonds and coupons, money orders, etc.

The chief "desks" or sections of a foreign department are: (1) Exchange Bought; (2) Exchange Sold; (3) Commercial Sight Credits; (4) Commercial Acceptance Credits; (5) Travelers' Checks and Letters of Credit; (6) Foreign Collections; and (7) Foreign Coin and Currency.

The foreign department is usually operated as if it were a bank in itself. The bank places a certain sum for investment in foreign operations, *e. g.*, balances abroad, discounting bills of exchange, etc., for which the manager of the foreign department is accountable. A separate set of books and general ledger is maintained, which must at all times tie up with the books of the general bookkeeping department. (See Foreign Exchange.)

### Foreign Department, Clearing House

Formerly the department of a clearing house association, which collected checks for

its members over a wider territory than the city in which it was located, *e. g.*, foreign department of the Boston Clearing House, which before the inauguration of the Federal Reserve check collection system in July, 1916, collected all New England checks. Other clearing house associations also formerly maintained foreign departments, but have been superseded by the *Federal Reserve Check Collection System* (q. v.).

### Foreign Deposits

Balances on deposit with a branch, or correspondent bank, in a foreign country.

### Foreign Exchange

The mechanism by which commercial, investment, and other transactions between countries are settled. While foreign exchange is usually defined as comprehending all those transactions that are concerned with the purchase and sale of the money of foreign countries, it is more accurately described as the transferring of credits or debits through their banks by individuals or corporations in one country, by obtaining credits or debits on the books of banks in other countries, which are correspondents or branches of the banks through which transmission is arranged.

Transmission of foreign exchange may take the form of a *Cable Transfer* (q. v.), commercial or bankers' bills of exchange (see *Foreign Bills of Exchange*), international postal money orders (see *Money Orders*), *Mail Payments* (q. v.), *Travelers' Cheques* (q. v.), and *Travelers' Letters of Credit* (q. v.). While foreign exchange, and not foreign money, is normally used in the settlement of international transactions, yet each foreign exchange instrument mentioned above is convertible into the currency of the country in which it is made payable.

Thus, foreign exchange is a method of effecting payments in a foreign country without the actual shipment of gold, although the latter is practically the only universally acceptable medium for the settlement of balances arising among countries in their trading interrelations. Gold shipments, however, are reduced to the minimum, since a nation's exports are largely offset by its imports, or vice versa.

Foreign exchange is closely akin to domestic exchange, and is arranged through the maintenance of reciprocal balances by banks engaging in the business. For example, leading New York and London banks maintain accounts with each other, just as many country banks in the United States keep bal-

ances with a New York correspondent. The difference is that the New York bank keeps a balance with its London correspondent in pounds sterling, and the London bank keeps a balance with its New York correspondent in dollars. By this arrangement, it is possible for the New York bank to sell its customers—importers for example—who owe money in London, bills of exchange drawn in favor of London exporters. When the London exporter receives the bill of exchange, he presents it for payment or credit to his account, whereupon the London bank reduces the balance maintained with it by the New York correspondent. Should the sum total of bills which a New York bank sells against its balance in London equal the sum total bought for building up its London account, then no settlement is required. But if the New York bank sells more bills on London than it buys, then it will deplete the balance to its credit with the London bank. This can be replenished by (1) shipping gold, (2) buying London exchange from another New York bank, or (3) borrowing in London.

Foreign exchange differs from domestic exchange in another important respect. It is impossible for an individual or corporation in the United States, for instance, to settle a foreign obligation by drawing a check on a local bank in favor of the foreign seller. This is true because (1) the check is payable only in the currency of the United States, and (2) the credit of the individual is not sufficiently well known. Bank credit, especially those of the larger institutions of the East, however, is established internationally; so that the exchange facilities of these banks must be called upon to execute transfers of credits and debits abroad.

Exchange is accumulated, *i. e.*, banks in the United States may establish and increase their credit balances with correspondent banks abroad in the following ways: (1) by purchasing bills of exchange arising out of merchandise exports and forwarding them abroad for collection and credit; (2) by purchasing bills of exchange arising out of the sale of American securities abroad; (3) by borrowing from foreign banks (see *Finance Bills*); and (4) by shipping gold.

Exchange is sold, whereby balances maintained by banks in the United States abroad are reduced, in response to the following sources of demand: (1) importation of merchandise; (2) purchase of foreign securities by American investors; (3) lending of funds in the foreign markets; (4) payment of various *Invisible Imports* (q. v.); (5) pay-



ment of services, *e. g.*, ocean freight and marine insurance charges; (6) immigrant's remittances. For the settlement of balances between two countries see *Balance of Trade*.

Foreign exchange rates are subject to constant fluctuation, but unless a nation is unable to settle its trade balances in gold, commercial rates can fluctuate only within certain defined limits above or below the *Mint Par of Exchange* (q. v.). This differential or range of variation, the upper limit of which is called the "gold export point" and the lower limit "gold import point", is determined itself by a variable, consisting of the sum of the following costs: (1) loss of interest on the gold while in ocean transit; (2) ocean freight charges; (3) marine (and war risk) insurance charges; (4) packing and unpacking charges; (5) bullion broker's profit; and (6) terminal haulage charges.

Under ordinary conditions the cost of shipment of gold from the United States to England is not over 3 cents per pound sterling. Under war conditions the charge may be greater, due to increased charges for marine and war risk insurance. Market quotations will not rise appreciably above the mint par of exchange, since the foreign exchange banks, seeing an opportunity for profit, will sell bills of exchange against shipments of gold. Conversely, if market quotations fall too far below the mint par, these banks will buy bills of exchange and order the importation of gold.

Within the limits imposed by the *Gold Points* (q. v.) as explained above, foreign exchange rates can and do fluctuate. Such fluctuations are caused by the variations in the supply and demand of bills in the foreign exchange market. Foreign shipping is somewhat seasonal in character and whenever exports largely exceed imports, a correspondingly larger volume of bills is offered for sale than there are orders to buy. In absorbing the excess of bills to be purchased, rates tend to fall. Conversely, when imports exceed exports the demand for bills is greater than the amount offered for sale, and rates tend to rise. This normal limitation in the fluctuation of exchange rates is predicated upon the free movement of gold among countries. If, for any reason, a nation declares an embargo upon gold exports, or if its gold reserves are so depleted that it can no longer settle its trade balances in gold, then the normal limitations of rate variation are no longer valid, and market rates may diverge widely from the mint parities. (See Arbitrage, Buying Rate, Cable Rate, Check Rate, First of Exchange, Foreign Bills of Ex-

change, Foreign Moneys, Foreign Government Bonds, Letters of Credit, Long Rate, Marine Insurance Certificate, Position Sheet, Short Rate.)

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### Foreign Exchange Broker

A bank, foreign exchange house, or dealer, who buys and sells foreign exchange.

### Foreign Exchange Market

There is no formal market or exchange where foreign exchange is traded in. The market consists of the large New York banks and other banks of the United States and the rest of the world which are in direct cable communication with one another, also various investment houses, and foreign exchange brokers and dealers. In New York City, the principal foreign exchange houses are in direct contact with one another through a system of private, as well as public, wires. Since London time is about 4 hours ahead of New York time, the cue for each day's rates is taken from London quotations.

### Foreign Exchange Rates

See Foreign Exchange, Foreign Moneys.

### Foreign Exchanges

The English equivalent for foreign exchange. (See Exchanges.)

### Foreign Government Bonds

Bonds which are a direct obligation of a foreign government. These bonds are of two classes: (1) *External Bonds* (q. v.)—those marketed, intended for investment by investors in another country, and payable both as to principal and interest in the currency of that country; and (2) *Internal Bonds* (q. v.)—those marketed primarily in the country of issue, and payable in the currency of that country. The external bonds of foreign countries which have been marketed in the United States are also known as dollar bonds. The market for this class of bonds has expanded greatly since the World War, and practically all of the European nations, and some of the South American and Asiatic countries have borrowed in the American market by means of selling their external bonds. Nearly 5 billions of foreign government bonds were listed on the New York Stock Exchange on July 1, 1922. A few foreign government issues are payable in several currencies, and are known as *Multiple-Currency Bonds* (q. v.). In addition

to foreign (national) government bonds, there are many foreign municipal issues available in the American market.

As to security, foreign government bonds may be divided into two classes: (1) promises to pay or certificates of indebtedness without collateral; and (2) those secured by a pledge of specific assets. Most issues are of the former type. The latter type is exemplified by the Japanese Tobacco  $4\frac{1}{2}$ s Sterling Bonds, secured by an annual charge upon the net revenue of the Japanese Tobacco Monopoly, and by the Mexican External 5s of 1889, secured by the hypothecation of 62 per cent. of the national customs receipts.

As investments, the value of these bonds depends upon the same factors as United States bonds, *i. e.*, upon the good faith, honor, political stability, state of industrial advancement, and commercial ability of the issuing government. It is sometimes objected that government bonds, not being subject to foreclosure, are inferior to mortgage bonds, since in case of default, there is no remedy at law. For a government to default in the payment of its bonds, however, would be credit suicide. With its credit standing undermined, it would be compelled to do without funds from outside sources, until it had paid its debts, and restored its credit. Once a government's credit has been impaired, a long time is required to rehabilitate it. New funds, moreover, are obtainable only at high rates of interest.

The record of defaulted government bonds as compared with bonds of other classes is favorable to the former, the percentage being less than for railroad and industrial bonds, and about equal to that for gas and electric company bonds. The Russian and Mexican bonds are principal issues now in default.

Most of the foreign government bonds enjoy a ready market in the United States, and bear a relatively high interest rate. The chief countries having external loans in the United States are United Kingdom, Canada, France, Japan, Belgium, Argentina, Switzerland, Italy, Sweden, Norway, Denmark, Brazil, Chile, Uruguay, Bolivia, Newfoundland, China, Cuba, Czecho-Slovakia, Russia, Mexico, Austria, Queensland, Panama, Jugoslavia, Colombia, Netherlands and Dutch East Indies. (See Foreign Corporate Bonds, Insular Bonds.)

### Foreign Items

Checks, drafts, bills of exchange, etc., which are payable in a foreign country.



This term is also quite generally employed in banking practice to apply to checks, notes, drafts, etc., which are drawn and payable within the United States, but payable at a point outside the place where they are deposited. In other words, this term is often used synonymously with *transit items*, and *out-of-town items*.

### Foreign Liquidation

The selling of American securities by holders or speculators abroad.

### Foreign Moneys

The principal facts concerning the important foreign moneys are presented in the accompanying tables, designated as Table 1 and Table 2. In the first table, which is arranged alphabetically by countries, the legal standard, monetary unit, value of monetary unit in terms of the American gold dollar, and value of the American gold dollar in terms of the monetary unit of each foreign country, are given. In Table 2, which is ar-

anged alphabetically by moneys, the name of the countries in which such moneys are used, the equivalent value in larger or smaller divisions of money in terms of United States, are exhibited. It is thought that by using both tables, the reader will be able to find the value of any important division of the principal foreign coinages.

Unless otherwise noted, values are given in gold.

For those who wish to make a more thorough study of monetary systems, *e. g.*, denominations, weights, metallic composition, and fineness of standard and subsidiary coinages, reference may be had to the following:

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(See Foreign Exchange, Money.)

## LIST OF MONEYS OF FOREIGN COUNTRIES

TABLE 2

Arranged Alphabetically by Moneys

\* Silver standard, with silver at \$1 an ounce. † Paper money at approximate value.  
All other moneys quoted as if gold.

Name of money	Country or Countries where used	Division	Value in United States Money
Anna	India	1/16 of Rupee	\$0.02028
Balboa	Panama	100 centesimos	1.00
Banu (i)	Rumania	1/100 of Leu	1.00193
Belion	Morocco	1/20 of Rial	0.03612*
Besa (e)	Abyssinia	1/100 of Talari	0.00754*
Bit	Virgin Islands	1/100 of Franc	0.00193
Bolivar	Venezuela	100 centimos	0.19295
Boliviano	Bolivia		
Cent	United States, Canada, Cuba, Hawaii, Porto Rico, Newfoundland, Liberia,		
	British Honduras	1/100 of Dollar	0.01
Cent	Ceylon, Zanzibar	1/100 of Rupee	0.00324
Cent	Hongkong	1/100 of Dollar	0.00780*
Cent	Netherlands	1/100 of Guilder	0.00402
Centavo	Argentina	1/100 of Peso	0.00965
Centavo	Bolivia	1/100 of Boliviano	0.00389
Centavo	Chile	1/100 of Peso	0.00365
Centavo	Colombia	1/100 of Peso	0.00973
Centavo	Ecuador	1/100 of Sucre	0.00487
Centavo	Guatemala	1/100 of Peso	0.00040†
Centavo	Honduras	1/100 of Peso	0.00723*
Centavo	Mexico	1/100 of Peso	0.00498
Centavo	Nicaragua	1/100 of Cordoba	0.01
Centavo	Paraguay	1/100 of Peso	0.00965
Centavo	Philippines and Salvador	1/100 of Peso	0.005
Centavo	Peru	1/1000 of Libra	0.00487

VALUES OF FOREIGN COINS IN TERMS OF UNITED STATES MONEY

TABLE 1

Arranged Alphabetically by Countries

Country	Legal Standard	Monetary Unit	Value in United States money	Value of \$1 in U. S. money	Remarks	
Abyssinia	Silver	Talari	\$0.7527	\$1.3268*		
Afghanistan	Silver	Rupee	.3437	2.1460*		
Argentina	Gold <sup>2</sup>	Peso	.9648	1.0365	Currency: Paper, normally convertible at 44 per cent. of face value; now inconvertible.	
Australia	Gold	Pound Sterling	4.8665	.2055		
Austria	Gold	Krone	.2026	4.9358		
Belgium	Gold	Franc	.1930	5.1813	Member Latin Union.	
Bolivia	Gold	Boliviano	.3893	2.5687	(12½ bolivianos equals 1 pound sterling.)	
Brazil	Gold <sup>2</sup>	Milreis	.5462	1.8310	Currency: Government paper normally convertible at 16 pence (\$0.3244) per milreis.	
British Colonies—						
Africa	}	Gold	Pound Sterling	4.8665	.2055	
Australia						
British Honduras	Gold	Dollar	1.0000	1.0000		
British West Indies	}	Gold	Pound Sterling	4.8665	.2055	
						Dollar
Bulgaria	Gold	Lev	.1930	5.1813		
Canada	Gold	Dollar	1.0000	1.0000		
Ceylon	Gold <sup>2</sup>	Rupee	.3244	3.0823	Currency: Silver.	
Chile	Gold <sup>2</sup>	Peso	.3650	2.0740	Currency: Inconvertible paper.	
China	Silver	Tael†	Amoy	.7753	(1)	The tael is a unit of weight; not a coin. The customs unit is the Haikwan tael. The values of other taels are based on their relation to the value of the Haikwan tael.
			Canton	.7728		
			Cheefoo	.7415		
			Chin Kiang	.7573		
			Fuchau	.7171		
			Haikwan	.7888		
			(customs)			
			Hankow	.7254		
			Kiaochow	.7509		
			Nankin	.7672		
			Niuchwang	.7280		
			Ningpo	.7454		
			Peking	.7558		
			Shanghai	.7082		
			Swatow	.7162		
Dollar†	Yuan	.5080	The Yuan silver dollar of 100 cents is the monetary unit of the Chinese republic; it is equivalent to .644† of the Haikwan tael.			
	Hongkong	.5099				
	British Mexican	.5137				
Chosen (Korea)	Gold	Yen	.4985	2.0061		
Colombia	Gold	Peso	.9733	1.0274	Currency: Government paper and gold.	
Costa Rica	Gold	Colon	.4653	2.1486		
Cuba	Gold	Peso	1.0000	1.0000		
Denmark	Gold	Krone	.2680	3.7314		
Dominican Republic	Gold	Dollar	1.0000	1.0000		
Ecuador	Gold	Sucre	.4867	2.0547		
Egypt	Gold	Eg. Pound	4.9431	.2023	The actual standard is the British pound sterling, which is legal tender for 97½ piastres.	
Eritrea	Silver	Tallero	.7234*	1.3824*		
Finland	Gold	Markka	.1930	5.1813		
France	Gold	Franc	.1930	5.1813	Member Latin Union.	
French Indo-China	Silver	Piastre	.7812*	1.2800*		
Germany	Gold	Mark	.2382	4.1976	Currency: Reichsbank notes.	
Great Britain	Gold	Pound Sterling	4.8665	.2055		
Greece	Gold	Drachma	.1930	5.1813	Member Latin Union.	
Guatemala	Silver	Peso	.4729†	(1)	Currency: Inconvertible paper.	
Haiti	Gold	Gourde	.2000	5.0000	Currency: Inconvertible paper.	
Hawaii	Gold	Dollar	1.0000	1.0000		
Honduras	Silver	Peso	.4729†	(1)	Currency: Bank notes	
Hongkong	Silver	Dollar	.5099†	(1)		
Hungary	Gold	Krone	.2026	4.9358		
India (British)	Gold <sup>2</sup>	Rupee	.4866	2.0550	(10 rupees equal 1 pound sterling); silver in circulation.	
Italy	Gold	Lira	.1930	5.1813	Member Latin Union.	
Japan	Gold	Yen	.4985	2.0061		
Java	Gold	Guilder	.4020	2.4876		
Korea	Gold	Yen	.4985	2.0061		
Liberia	Gold	Dollar	1.0000	1.0000	No Liberian gold coined.	
Malay Federated States	Silver <sup>2</sup>	Dollar	.5678*	1.7613*	Silver in circulation.	
Mexico	Gold	Peso	.4985	2.0061		
Montenegro	Gold	Perpera	.2026	4.9358		
Morocco	Silver	Rial	.7234*	1.3824*		
Netherlands	Gold	Guilder (Florin)	.4020	2.4876		
Newfoundland	Gold	Dollar	1.0000	1.0000		
New Zealand	Gold	Pound Sterling	4.8665	.2055		
Nicaragua	Gold	Cordoba	1.0000	1.0000		
Norway	Gold	Krone	.2680	3.7314		
Panama	Gold <sup>2</sup>	Balboa	1.0000	1.0000	No Panamanian gold coined.	
Paraguay	Gold	Peso (Argentine)	.9648	1.0365	Currency: Depreciated paper, now inconvertible.	
Persia	Silver	Kran	.0871†	(1)	Currency: Silver circulating above its metallic value; gold coin a commodity only.	
Peru	Gold	Libra	4.8665	.2055		
Philippines	Gold <sup>2</sup>	Peso	.5000	2.0000		
Porto Rico	Gold	Dollar	1.0000	1.0000		
Portugal	Gold	Escudo	1.0805	.9255	Currency: Inconvertible paper.	
Rumania	Gold	Leu	.1930	5.1813		
Russia	Gold	Ruble	.5146	1.9434		
Salvador	Gold	Colon	.5000	2.0000		
Santo Domingo	Gold	Dollar	1.0000	1.0000		
Serbia	Gold	Dinar	.1930	5.1813		
Siam	Gold	Tical	.3709	2.6965		
Spain	Gold	Peseta	.1930	5.1813	Currency: Notes of the bank of Spain.	
Straits Settlements	Gold <sup>2</sup>	Dollar	.5678	1.7613		
Sweden	Gold	Krone	.2680	3.7314		
Switzerland	Gold	Franc	.1930	5.1813	Member Latin Union.	
Turkey	Gold	Piastre	.0440	22.2984	(100 piastres equal to the Turkish pound.)	
Uruguay	Gold	Peso	1.0342	.9669		
Venezuela	Gold	Bolivar	.1930	5.1813		
Zanzibar	Gold <sup>2</sup>	Rupee	.3244	3.0823		

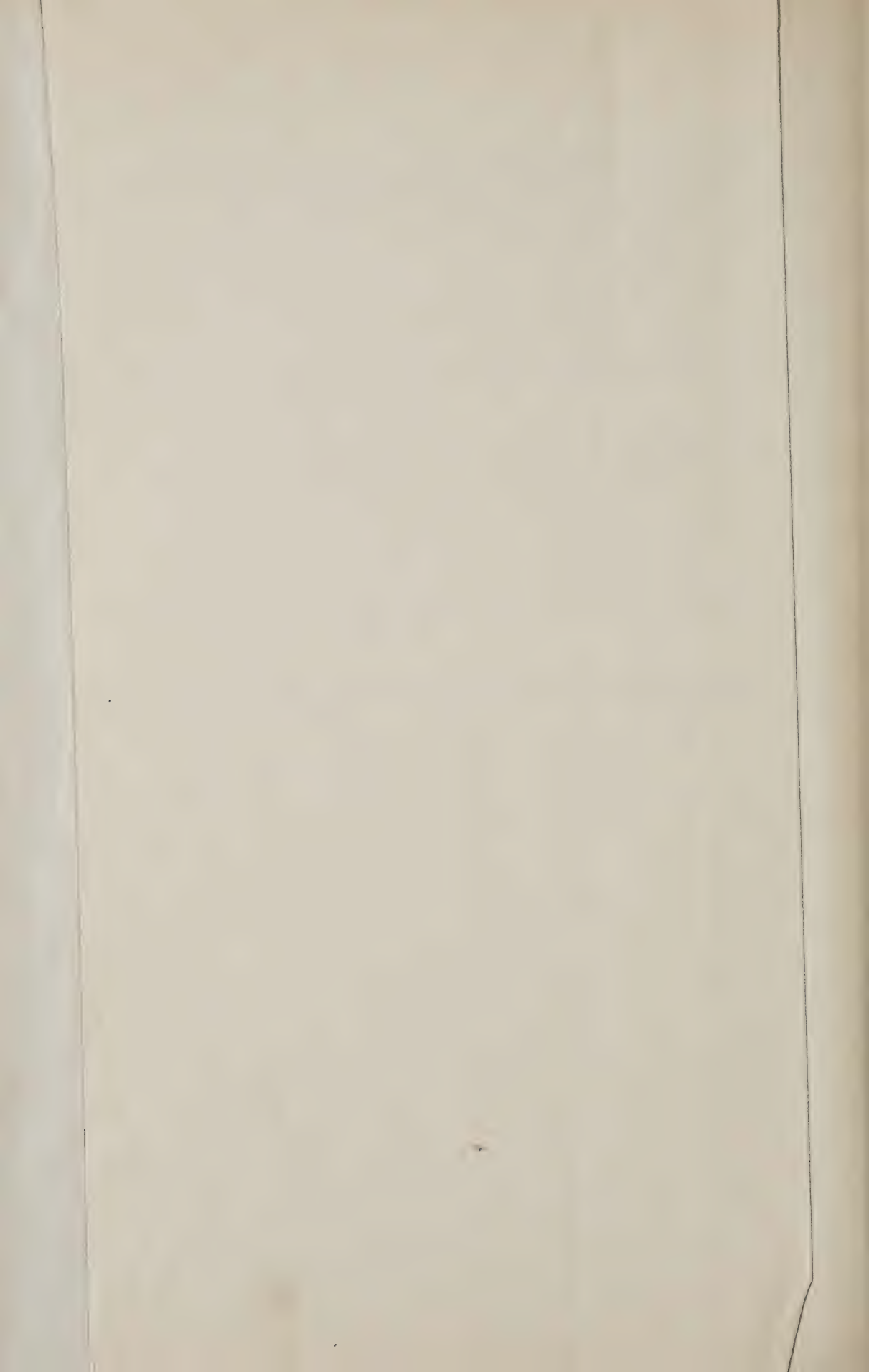
\* Based on silver at \$1 per fine ounce.

† Based on values given in Treasury Department Circular, issued April 1, 1922.

(1) Value fluctuates in accordance with the gold price of silver.

<sup>2</sup> In reality, Gold Exchange Standard (q. v.).





Name of money	Country or Countries where used	Division	Value in United States Money
Centavo	Portugal	1/100 of Escudo	0.01080
Centesimo(i)	Italy	1/100 of Balboa	0.01
Centesimo	Panama	1/100 of Lira	0.00193
Centesimo	Uruguay	1/100 of Peso	0.01034
Centimo	Costa Rico	1/100 of Colon	0.00465
Centimo	Spain	1/100 of Peseta	0.00193
Centimo	Venezuela	1/100 of Bolivar	0.00193
Centime	France, Belgium, Monaco, Switzerland	1/100 of Franc	0.00193
Centime	Haiti	1/100 of Gourde	0.002
Centime	French Indo-China	1/100 of Piastre	0.00781*
Colon	Salvador	100 centavos	0.50000
Colon(es)	Costa Rica	100 centimos	0.46536
Cordoba	Nicaragua	100 centavos	1.00
Dinar	Serbia	100 paras	0.19300
Dinar	Persia	1/50 of shahi	0.00133*
Dollar	United States, Canada, Hawaii, Porto Rico, Newfoundland, Liberia, British Honduras	100 cents	1.00
Dollar	Malay Federated States	100 cents	0.56776
Dollar	Hongkong	100 cents	0.77998*
Drachma(i)	Greece	100 lepta	0.193
Escudo	Portugal	100 centavos	1.08056
Fen	China	1/100 of Yuan	0.00777*
Filler	Hungary	1/100 of Krone	0.00203
Florin	Netherlands	100 cents	0.4020
Franc	Belgium, France, Monaco, Switzerland	100 centimes	0.193
Gourde	Haiti	100 centimes	0.20
Guilder(en)	Netherlands	100 cents	0.4020
Heller	Austria	1/100 of Krone	0.00203
Kopeck	Russia	1/100 of Ruble	0.00515
Kran	Persia	20 shahis	0.13325*
Krone	Hungary	100 Filler	0.20263
Krone	Austria	100 heller	0.20263
Krone	Denmark, Iceland, Norway, Sweden	100 ore	0.2680
Lepton(ta)	Greece	1/100 of Drachma	0.00193
Leu(i)	Rumania	100 bani	0.193
Lev(a)	Bulgaria	100 stotinki	0.193
Libra	Peru	1000 centavos	4.86656
Lira	Italy	100 centesimi	0.193
Maria Theresa Dollar	Abyssinia	100 cents	0.74899*
Mark	Germany	100 pfennige	0.23821
Markka	Finland	100 pennia	0.193
Millieme	Egypt	1/10 of Piastre	0.00494
Milreis	Brazil	1000 reis	0.5462
Milreis	Portugal (old)	1000 reis	1.08056
Ore	Denmark, Iceland, Norway, Sweden	1/100 of Krone	0.00268
Para	Serbia	1/100 of Dinar	0.00193
Para	Montenegro	1/100 of Perper	0.00203
Para	Egypt	1/4 of Millieme	0.00123
Para	Turkey	1/40 of Piastre	0.00109
Penni	Finland	1/100 of Markka	0.00193
Penny	United Kingdom, Australia, New Zealand, etc.	1/12 of shilling	0.02028
Perper	Montenegro	100 para	0.20263
Peseta	Spain	100 centimos	0.193
Peso	Argentina	100 centavos	0.96475



Name of money	Country or Countries where used	Division	Value in United States Money
Peso	Chile	100 centavos	0.365
Peso	Colombia	100 centavos	0.97331
Peso	Cuba	100 centavos	1.00
Peso	Guatemala	100 centavos	0.04†
Peso	Honduras	100 centavos	0.72338*
Peso	Mexico	100 centavos	0.49846
Peso	Panama	100 centavos	0.50
Peso	Paraguay	100 centavos	0.96475
Peso	Philippines	100 centavos	0.50
Pfennig (e)	Germany	1/100 of Mark	0.00238
Piastre	Egypt	1/100 of Eg. Pound.	0.04943
Piastre	French Indo-China	100 centimes	0.78125*
Piastre	Turkey	1/100 of Tk. Pound.	
		40 paras	0.0440
Pice	India	1/4 anna	0.00507
Pie	India	1/12 of anna	
		1/3 of pice	0.00169
Pound Sterling	United Kingdom, Australia, New Zealand, etc.	20 shillings	4.86656
Pound, Egyptian	Egypt	100 piastres	4.94307
Pound, Turkish	Turkey	100 piastres	4.39642
Reis (Real)	Brazil	1/1000 of Milreis	0.00054
Rial	Morocco	20 belions	0.72338*
Rin	Japan	1/10 of Sen	0.00049
Ruble	Russia	100 kopecks	0.51456
Rupee	Ceylon, Zanzibar	100 cents	0.32444
Rupee	India	16 annas	0.32444
Satang	Siam	1/100 of Tical	0.00371
Sen	Japan	1/100 of Yen	0.00498
Shahi	Persia	1/20 of Kran	0.00666*
Shilling	United Kingdom, Australia, New Zealand, etc.	12 pence	0.24333
Sol	Peru	1/10 of Libra	0.48665
Stiver	Netherlands	5 cents	0.02009
Stotinka (i)	Bulgaria	1/100 of Lev	0.00193
Sucre	Ecuador	100 centavos	0.48665
Talari	Abyssinia	100 bese	0.75368*
Tallero (i)	Eritrea	100 bese	0.72338*
Thaler (Maria Theresa)	Abyssinia	100 cents	0.74899*
Tical	Siam	100 satang	0.37085
Yen	Japan	100 sen	0.49846
Yuan	China	100 cents	0.77710*

### Foreign Postal Money Orders

See Money Orders.

### Foreign Securities

See External Bonds, Foreign Corporate Bonds, Foreign Government Bonds, Internal Bonds, Multiple Currency Bonds.

### Foreign Trade

The following significant foreign trade data, showing exports, imports, and trade balance of the United States from 1912 to 1922, are presented:

Year	(000 omitted)		Favorable Trade Balance
	Exports	Imports	
1922.....	\$3,831,260	\$3,112,273	\$718,897
1921.....	4,485,123	2,509,025	1,976,097
1920.....	8,228,016	5,278,481	2,949,535
1919.....	7,920,426	3,904,365	4,016,061
1918.....	6,149,085	3,031,213	3,117,872
1917.....	6,233,514	2,952,467	3,281,047
1916.....	5,482,641	2,391,635	3,091,006
1915.....	3,554,670	1,778,598	1,776,072
1914.....	2,113,625	1,789,277	324,348
1913.....	2,484,018	1,792,596	691,422
1912.....	2,399,216	1,818,217	580,999

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**Forfeiture**

The loss or relinquishment of money deposited to secure or bind a contract, or part payment of a purchase, as a penalty for non-performance or non-fulfillment. As an illustration the case of a purchaser of stock in a National bank undergoing organization is cited. The law permits the subscriber to pay a first installment of 50 per cent., and the remainder in five 10 per cent. monthly instalments. Upon failure to make the instalment payments according to agreement, the stock is then sold to the highest bidder. If the selling price is no more than the amount of the delinquent instalment, the original purchaser forfeits his entire deposit; but if it is in excess of the delinquent instalment, the original purchaser is entitled to the excess up to the amount of the original deposit.

**Forged Instruments**

Checks, drafts, bills of exchange, notes, bonds, stock certificates and paper money with false signatures or false denominations or false instruments with genuine signatures. The losses due to forged bonds and stock certificates have been considerable in the past, and one of the functions of the New York Stock Exchange is to prevent this abuse. The New York Stock Exchange guarantees the physical genuineness of all listed securities traded in by its members.

A bank is liable for paying a check with a forged signature. A bank is bound to know the signatures of its depositors; consequently, all checks passing through a bank are examined as to their signature by the paying teller or signature clerks before they are paid. A bank is not liable to a depositor, however, for the payment of a forged or raised check unless the depositor notifies the bank that the check was forged or raised within one year after the return of the voucher of such payment.

Since paying a forged check is one of the chief risks with which a bank is confronted, banks should educate their depositors to protect their blank checks as a means of combating this risk. Depositors should keep

blank checkbooks under control and be able to account for each of the series. Checks should not be signed in blank, nor should blank checks be given away to strangers. (See Alteration, Counterfeits, Forgery, Signature Department.)

**Forgery**

In its broadest interpretation forgery is defined as "making or altering any document with the intention of prejudicing another person. Forgery consists of the fraudulent application of a false signature to a true instrument, as well as a true signature to a false instrument, any material alteration of an instrument being forgery. Thus placing a false signature on a check, raising the amount, changing the payee's name, or the number of the check with intention to defraud, constitutes forgery. The alteration of a passbook entry likewise is forgery. Forgery is a statutory crime and is punishable by imprisonment. (See Alteration, Counterfeits, Forged Instruments, Raised Bills.)

**Fortnightly Settlement**

See Settlement Days.

**Forward Movement**

A market expression which refers to a general rise in the price level securities or commodities in which all listings participate. The expression may refer to a rising price tendency for the day, or for a period of time.

**Foundation**

An institution established on a permanent basis by private endowment, *e. g.*, college, hospital, research bureau, church, scientific institution, etc., or the endowment fund itself. A foundation usually is instituted as a gift of the donor and maintained continuously from the income derived from investments, usually bonds, constituting the principal of the endowment. The Russell Sage and Rockefeller foundations are examples of this type of institution.

Foundations furnish a market for long-term bonds.

**Founders' Shares (Stock)**

A special form of stock issued to the founders or promoters of a company in remuneration of the promoters' services, as distinguished from common or ordinary stock. Founders' stock is a term primarily used in English finance and corresponds approxi-



mately with the American *Promoters' Stock* (q. v.). It is known as management or deferred stock. (See *Deferred Stock*.)

### Fractional Currency

Coins having a denomination of less than one dollar. These include the silver 50 cent, 25 cent and 10 cent pieces; the nickel 5 cent piece; and the bronze 1 cent piece. (See *Minor Coins*, *Subsidiary Silver Coins*, *Token Money*.)

### Fractional Lots

See *Odd Lot*.

### Franc

See *Foreign Moneys*—France, Belgium, Switzerland, Monaco.

### Franchise

A privilege conferred by a governmentality, usually a municipality, by which a corporation is vested with powers to engage in a public utility enterprise usually under quasi-monopolistic conditions. A franchise is a grant of power given to the grantee corporation to engage in a business which involves the exercise of the right of eminent domain. This includes all public service businesses (gas, water, electricity, street railway, suburban, telephone companies, etc.). Public utility corporations are subject to the conditions imposed by the franchise and a violation of its provisions results in its *Forfeiture* (q. v.). Most states provide for the regulation of their public utilities through a public service commission.

The principal features covered by a franchise are: (1) duration, which may be fixed (limited), perpetual, or indeterminate (during "good behavior"); (2) compensation, which may be a sum of money or performance of certain services; (3) rates; (4) service; (5) improvements, which in most cases revert to the grantor upon the expiration of the franchise; (6) labor conditions and strikes; (7) capitalization; and (8) reversion to grantor.

The conditions imposed in a franchise are important in judging public utility investments, the chief points to be considered being that the bonds of these companies should mature within the life of the franchise, and should not exceed the replacement value of the company's fixed property. (See *Public Service Commission*, *Public Utility Securities*.)

### Free Balance

A term applied in commercial banking to deposit balances upon which the bank does not pay interest, or to that portion of a deposit balance, *e. g.*, \$500, \$1,000, or \$5,000, upon which the depositor receives no interest. For example, if a bank allows interest on balances in excess of \$500, the free balance is \$500. (See *Deposit Interest Rate*, *Twenty Per Cent. Rule*.)

### Free Bonds

Unpledged or unhypothecated bonds; bonds available for immediate disposal.

### Free Coinage

Coinage of a metal into standard coins without limitation as to quantity, with full legal tender powers for private persons. Gold is the only metal that enjoys free coinage in the United States and in all gold standard countries. Free coinage should be distinguished from *Gratuitous Coinage* (q. v.). (See *Coinage*, *Free Silver*.)

### Free Gold

Gold held in the United States Treasury or in Federal Reserve banks in amounts in excess of all redemption and reserve requirements.

### Free Items

Checks, matured notes, and bankers' acceptances, etc., drawn on out-of-town points which are cashed or received for deposit by a bank at par without deduction for exchange or collection charges. Local clearing house associations usually determine those items which may be received by members for deposit at par and those upon which exchange must be charged. (See *Domestic Exchange*.)

### Free Market

An open market where prices are determined by free and open competition between many buyers and sellers.

### Free Silver

A term used to denote the use of silver as a standard money, singly or with gold, as in *Bimetallism* (q. v.). Free silver refers to the coinage of silver at the mint without limitation as to amount, without profit to the Government, and investing it with full legal tender powers. The free silver agitation was rampant in the early 90's and was a campaign issue in 1896. (See *Bland-Allison Act*, *Free Coinage*.)

### Frozen Credits

An expression coined during the post-war credit deflation period to denote bank loans which could not be liquidated without financially embarrassing the borrowers and which were accordingly extended to prevent bankruptcy; loans renewed or extended as a matter of accommodation to customers on account of a precipitate fall in price of supporting collateral below the amount of the loan, with the hope of future price betterment and ultimate liquidation of the loan without loss to the lending investors.

### Frozen Loans

See Frozen Credits.

### Frozen Out

This term has three meanings:

(1) An expression used to describe a speculator whose account has been closed out by a broker due to the exhaustion of his margin. (See Exhaust Price.)

(2) The expression is also used to indicate the forcing out of small stockholders by those in control. This is accomplished by frightening them into selling their holdings by circulation of reports of distress, or by temporarily depressing the price of the security, or otherwise.

(3) An officer or director of a corporation may be "frozen out" or forced out of office by a concerted plan of the stockholders or others in control.

### Fuerte

A money of Venezuela, equal to five bolivars. (See Foreign Moneys—Venezuela.)

### Full Lot

The unit of trade on an exchange, and also known as board lot. A full lot in the New York Stock Exchange is 100 shares of stock, and \$1,000 (par value) of bonds. (See Units of Trade.)

### Full (Fully) Paid Stock

Stock fully paid for, *i. e.*, upon which no further instalments are due. In most states stocks may be paid for in cash, property, or services of equivalent value. In some states, however, stock cannot be issued unless paid for in cash, or its equivalent in property (services being excluded), equal to the face value of the stock. In a few states stock may be paid in cash only.

Stock which is not fully paid carries with it the obligation on the part of the holder to pay the balance at any subsequent time.

### Fundamental Conditions

A term used in market letters and financial reviews to indicate the underlying economic factors upon which the state of business, whether active or inactive, moderate or dull, prosperous or depressed, is ascertained. Fundamental conditions at any given time are determined by referring to comparative business statistics, various business, banking, investment and credit barometers, and to principles of economics. (See Business Barometers, Favorable Conditions.)

### Funded Debt

Bonded debt; long-term indebtedness of a business corporation, or Government or political sub-division thereof, as distinguished from the unfunded, floating, or current debt. The Interstate Commerce Commission defines this term as comprising all bonds or other certificates of indebtedness not maturing for a year or more.

### Funded Indebtedness

See Funded Debt.

### Funding

The process of converting the floating indebtedness of a Government or political sub-division thereof, or a business corporation, into long-term bonds. Funding may be accomplished by converting a series of short-term note issues into long-term bonds, when interest rates are low, or in corporate finance, by selling stock and paying off short term debts with the proceeds. In this way stockholders virtually buy out the interest of the creditors. Funding by means of the sale of additional stock is usually undertaken when the investment market is favorable.

### Funds

Cash, or its equivalent, *e. g.*, checks, drafts, money orders, etc. The term may be used to include securities which have a ready market and can be quickly liquidated. It is common to hear the expression "liquid" funds, meaning cash; and "tied up" funds, meaning money invested in income-bearing assets.

### Futures

Contracts in which the seller agrees to deliver commodities, foreign exchange, or securities at a future date, usually from one to



six months, but sometimes longer, ahead. Trading in futures is chiefly confined to grain, cotton and sugar, but is also common in foreign exchange. Short selling in securities is also a form of trading in futures. Ordinarily, this practice is regarded as speculative, but it is more frequently quite the opposite, as explained by Boyle:

"Future trading is of two kinds, speculative and hedging. A part of future trading is known as 'hedging' and is a form of insurance. A part of future trading is purely speculative. It is really dealing in grain contracts, rather than in grain. Some members of the Board of Trade devote their energies

wholly to speculation, and are known as 'professionals.' Again, there is a sub-class of speculators who are called 'scalpers' or 'pit scalpers,' since they buy and sell on each slight drop or rise in the market, trying to scalp a little profit off of each fluctuation for themselves. They do not risk carrying any trades over night, but aim to be even at the close of each day. The 'professional speculator,' however, deals for the longer swings of the market, over a period of days, or even weeks."\* (See Cotton Futures, Hedge.)

\* *Speculation and the Chicago Board of Trade*, p. 23.

## G

### Gamble (Gambling)

A term used in speculative circles meaning to "play the market" blindly. It consists of making speculative commitments without having a knowledge of business conditions, the technical position of the market, cyclical price movements, or the value of the securities traded in from the standpoint of equities and earnings, especially stocks of corporations which have not yet reached the producing stage, and the success of which is uncertain. In other words to gamble in stocks is to deal in highly speculative stocks, to deal in stocks without previous knowledge of the risks involved, to trade on thin margins, to load up heavily on one security issue, or merely to bet on the rise or fall of quotations—the practice of the *Bucket Shop* (q. v.). In general a gambler is one who takes heavy and unnecessary risks, *e. g.*, one who casts too much on a single throw of the dice.

From a strict economic standpoint the well considered purchase of stocks is not gambling, since a real contribution to production is made, *i. e.*, that of furnishing capital for speculative enterprises, whereas in gambling, no end is finally achieved. Gambling, moreover, involves the assumption of a needless or artificial risk (often created for the occasion), while speculative trading involves a necessary economic risk. (See Lamb, *Speculation*.)

### Garnishee

See Garnishment.

### Garnishment

A legal process, or the notice or writ, which directs a third party who owes money or other property to the defendant in a case in which the plaintiff is suing to collect a debt, not to deliver such money or property into the defendant's hands, but to appear in court and answer the plaintiff's suit. Garnishment proceedings are instituted in order to secure to the plaintiff a claim due by a third person to such debtor, against whom suit has been brought. The person upon whom the garnishment is served is known as the garnishee.

### General Accounts

Accounts which appear in a bank's general ledger; all accounts other than accounts with depositors and depositories, *i. e.*, accounts representing balances due to and due from customers. (See *General Ledger*.)

### General Agent

See Agent.

### General and First Mortgage Bonds

See First and General Mortgage Bonds.

### General Asset Currency

Bank notes which are not secured by a specific pledge of collateral, *e. g.*, specie, bonds, or commercial paper, but which are supported only by the general assets of the issuing bank. The notes of the Bank of France, and of the banks of Canada, are examples of general asset currency. There are no examples of general asset currency in the United States, although they were proposed in the so-called *Baltimore Plan* (q. v.) of the American Bankers' Association.

### General Average

See Average.

### General Bookkeeper

One who has charge of the general ledger and the *General Bookkeeping Department* (q. v.).

### General Bookkeeping Department

The department of a bank which records all transactions affecting the general accounts, as distinguished from customers' accounts. The function of the general bookkeeping department is to summarize the transactions of each of the operating departments of the bank before they are added to or subtracted from the assets, liabilities, or undivided profits accounts. In order that the financial condition of a bank may be visualized, this department becomes the central accounting department where all the transactions of the bank are gathered, condensed and recorded. The general bookkeeping department maintains a general



ledger, statement book, and expense book. (See General Ledger.)

### General Deposits

See Deposits.

### General First Mortgage Bonds

A misleading title, contradictory because a general mortgage cannot be a first mortgage, which in most cases denotes general mortgage bonds, although sometimes they constitute a first lien on a part of the mortgaged property. The proper title for this class of bonds is first and general mortgage bonds, or *First Lien and General Mortgage Bonds* (q. v.). (See General Mortgage Bonds.)

### General Indorsement

Indorsement in blank. (See Indorsement.)

### General Ledger

The most important accounting record of a bank which contains a summary of all transactions of the institution including general accounts and controlling accounts for the customers' ledgers. Every transaction which occurs in any of the operating departments eventually affects some account in the general ledger and in the ordinary routine, reaches the general bookkeeping department for posting to the general ledger. Each general ledger account, *e. g.*, time loans, represents the aggregate of such loans held by the bank and the total represented by the subsidiary loan ledger. Whereas one hundred time loans may be made during the day and as many entries recorded in the subsidiary loan ledger, only one posting is made for the total (one hundred loans) to the debit of the time loans account in the general ledger.

Usually the general ledger is of the Boston or progressive type, and frequently where the number of accounts is large, two separate volumes are used, one each for assets and liabilities. Postings are made to the general ledger from various posting mediums routed to the general bookkeeping department from the various operating departments. The postings usually are made early in the day after which the ledger is proved. The balances of each customers' ledger must prove with the corresponding controlling account in the general ledger.

This ledger reveals the cross section of the business each day, and the daily proofs thereof are virtually a series of instantaneous photographs or moving pictures of the bank's

financial condition and financial progress. It is this record from which a great wealth of statistical information is derived.

The following accounts are typical of those appearing in the general ledger of a large National bank:

#### ASSETS

##### *Loans and Discounts*

Demand Loans—Brokers.  
Demand Loans—Merchants.  
Time Loans—Eligible for Rediscount.  
Time Loans—Ineligible for Rediscount.  
Bills Discounted.  
Acceptances Discounted.  
Overdrafts.

##### *Securities*

U. S. Bonds Deposited to secure Circulation.  
U. S. Bonds to Secure Government Deposits.  
U. S. Bonds Deposited with Superintendent of Banks—State of New York.  
U. S. Bonds to Secure Trust Funds.  
U. S. Bonds Deposited with Federal Reserve Bank as Collateral for Loans.  
U. S. Bonds Deposited with Federal Reserve Bank as Collateral Against Loans Repledged from Customers' Loans.  
U. S. Bonds Loaned.  
U. S. Bonds Borrowed.  
U. S. Bonds on Hand.  
Premium on U. S. Bonds.  
Other Bonds to Secure Government Deposits.  
Other Bonds to Secure State and Other Deposits.  
Other Bonds Loaned.  
Other Bonds Held on Joint Account.  
Other Bonds Sold with Agreement to Repurchase.  
Other Bonds on Hand.  
Other Bonds to Secure Trust Department Funds.  
Federal Reserve Bank Stock.  
Stock of Various Foreign Banking Corporations.

##### *Cash*

Gold Coin.  
Silver Coin.  
Gold Certificates.  
Silver Certificates.  
Federal Reserve Notes.  
Federal Reserve Bank Notes.  
Other National Bank Notes.  
U. S. Legal Tender Notes.  
Fractional Currency.

##### *Customers' Liability*

Acceptances of Domestic and Foreign Bills of Exchange.  
Acceptances Under Commercial Letters of Credit.

*Other Assets*

Bank House and Equipment.  
 Due from Domestic Banks and Bankers.  
 Due from Domestic Banks and Bankers, Collections.  
 Due from Federal Reserve Bank. (Lawful Reserve.)  
 Due from Federal Reserve Bank, Collections.  
 Five Per Cent. Redemption Fund Due from U. S. Treasurer.  
 Exchanges for Clearing House.  
 Checks on Other Banks in this City Not Members of Clearing House.  
 Due from U. S. Treasurer other than 5 per cent. Redemption Fund.

*Expenses*

Exchange.  
 Taxes.  
 Interest to Depositors.  
 Losses.  
 Expenses.

## LIABILITIES

*Capital Invested*

Capital Stock.  
 Surplus.  
 Undivided Profits.

*Earnings*

Interest.  
 Discount.  
 Commissions.  
 Exchange.  
 Bond Profits.  
 Foreign Exchange Profits.

*Reserves*

Reserve for Taxes.  
 Reserve for Losses.  
 Reserve for Interest.

*Deposits*

United States Deposits.  
 Demand Deposits—Corporations, Firms, Individuals.  
 Demand Deposits—Banks.  
 Demand Certificates of Deposits.  
 State Deposits.  
 Time Deposits.  
 Time Certificates of Deposit.  
 Certified Checks.  
 Cashiers' Checks.  
 Money Orders.  
 Paid Letters of Credit.  
 Coupon Checks.  
 Note Tellers' Payments.  
 Corporate Trust Funds.  
 Individual Trust Funds.

*Liability On Account Of*

Letters of Credit Issued and Outstanding.  
 Acceptances Under Commercial Letters of Credit.

*Other Liabilities*

Circulating Notes.  
 U. S. and Other Bonds Borrowed. (Liability.)  
 U. S. Bonds Placed as Collateral to Loans and Repledged as Collateral to Loans from Federal Reserve Bank (Liability).  
 U. S. Bonds Pledged as Collateral to Loans and Repledged to Secure Government Deposits.  
 Unpaid Dividends.  
 Rediscunts with Federal Reserve Bank.  
 Bills Payable with Federal Reserve Bank.  
 Unearned Discount.  
 Accrued Expense.

**General Legacy**

See Legacy.

**General Loan and Collateral Agreement**

Brokers' loans, *i. e.*, stock exchange loans are not usually evidenced by notes. Instead brokers borrowing on stock exchange collateral are required to sign a loan contract known as a General Loan and Collateral Agreement, or continuing agreement. Brokers' loans are usually demand loans and the machinery of the call loan market is such as to require a contract which can operate as a continuing obligation. This contract remains on file with the lending bank and obviates the necessity of preparing a separate note for each loan. Because of its flexibility it is more advantageous both to the borrower and to the bank. In a collateral loan, the collateral is recited, but in the General Loan and Collateral Agreement, no specific loans or collateral are mentioned. The agreement gives the bank, however, the right to sell any collateral securing a loan, upon default in payment when called, or upon failure to respond to a call for additional margin. It also gives the bank the right to assign or transfer all or any part of the loan made, or to rehypothecate any Government bonds in the collateral against loans from the Federal Reserve bank. From the viewpoint of the customer, it prevents the inconvenience of signing a note each time a loan is made. Another advantage is that revenue stamps are not required. The following is a typical form of general loan and collateral agreement:



WHEREAS, the undersigned expect, from time to time, to borrow money from the Blank Bank of New York (hereinafter called the Bank) and to pledge with the Bank, property of various kinds as collateral security for the payment of such loan or loans to be hereafter made by the Bank; Now, therefore,

IT IS AGREED by the undersigned with the Bank, that all property thus pledged with it may be held by it as collateral security for the payment of such loan or loans as well as for the payment of any other obligation or liability, direct or contingent, of the undersigned, or any of them, to the Bank, due or to become due, whether now existing or hereafter arising; and the undersigned agree to deliver to the Bank additional securities, or to make payments on account to its satisfaction, should the market value of said securities, as a whole, suffer any decline. The undersigned hereby give to the bank a lien for the amount of all such obligations and liabilities upon all the property or securities now or at any time hereafter given unto or left in the possession of the Bank, by the undersigned, whether for the express purpose of being used by the Bank as collateral security, or for any other or different purpose, and also upon any balance of the deposit account of the undersigned, or any of them, with the bank.

On the non-performance of this promise, or upon the nonpayment of any of the obligations or liabilities above mentioned, or upon the failure of the undersigned, forthwith, with or without notice, to furnish satisfactory additional securities, or to make payments on account, in case of decline, as aforesaid, or in case of insolvency, bankruptcy, or failure in business of the undersigned, or any of them, then and in any such case, all obligations and liabilities, direct or contingent, of the undersigned and each of them, shall forthwith become due and payable without demand or notice; and full power and authority are hereby given to the Bank to sell, assign, and deliver the whole of the said securities, or any part thereof, or any substitutes therefore, or any additions thereto, or any other securities or property given unto or left in the possession of the Bank, by the undersigned, whether for the express purpose of being used by the Bank as collateral security, or for any other or different purpose, or in transit to or from the Bank, by mail or carrier, for any of the said purposes, at any broker's board, or at public or private sale, at the option of the Bank, without either demand, advertisement or notice of any kind, all of which are hereby expressly waived. At any such sale, the Bank may itself purchase the whole or any part of the property sold, free from any right of redemption on the part of the undersigned, which is hereby waived and released. In case of any sale or other disposition of

any of the property aforesaid, after deducting all costs, or expenses of every kind for collection, sale or delivery, the Bank may apply the residue of the proceeds of the sale or sales so made, to pay one or more or all of the said obligations or liabilities to it, whether then due or not due, making proper rebate for interest on obligations or liabilities not then due, and returning the overplus, if any, to the undersigned, who agree to be and remain liable, jointly and severally, to the Bank for any deficiency arising upon such sale or sales. The undersigned do hereby authorize and empower the Bank, at its option, at any time, to appropriate and apply to the payment and extinguishment of any of the obligations or liabilities, hereinbefore referred to, whether now existing or hereafter contracted and whether then due or not due, any and all moneys now or hereafter in the hands of the Bank, on deposit, or otherwise to the credit of or belonging to the undersigned, or any of them.

The Bank may assign or transfer this instrument and may deliver the said collateral security or any part thereof to the transferee or transferees, who shall thereupon become vested with all the powers and rights above given to the Bank, in respect thereto; and the Bank shall thereafter be forever relieved and fully discharged from any liability or responsibility in the matter. No delay on the part of the holder hereof, in exercising any rights hereunder shall operate as a waiver of such rights. (See Call Money Market.)

### General Mortgage Bonds

Bonds secured by a blanket mortgage upon all the property already subject in whole or in part to prior mortgages. These bonds are common among railroad and public utility corporations, being issued as a means of raising funds for improvements upon property which has enhanced in value since the issue of the underlying mortgage. Many mortgages have an "after acquired" property clause which places all the property actually owned at the time the bonds are issued, as well as all the property which may subsequently be acquired under the lien and subject to the mortgage. The "after acquired" property may be that which is obtained through the proceeds of the sale of the bonds, or it may apply to all property acquired after the date of the mortgage.

General mortgage bonds frequently are issued in sufficient amount not only to raise additional capital, but also to provide for the retirement of the original mortgage bonds when they mature. When this is the case general mortgage bonds eventually become first mortgage bonds.

### General Obligation

See Obligation.

### Gilt Edged

An expression which denotes best quality, superior merit, first class, or highest grade. It is used in connection with bonds, notes, acceptances, commercial paper, or other investments.

### Giro System

The German equivalent of the check system in the United States. (See Bank of Germany.)

### Give up

A term applied to an order executed by one broker for another broker's customer. The former broker "gives up" the transaction to the latter, revealing the name of the customer.

### Going Concern

A term applied to a business property in operation, as distinguished from one that temporarily has closed down, is defunct, or is being liquidated. It is frequently used in connection with valuation, the property of a going concern being more valuable than one undergoing liquidation. This is particularly true of a manufacturing industry, or public utility, the property of which consists largely of fixed assets, real estate, buildings, machinery, equipment, etc. Since most machinery is highly specialized in character and can be used for a single purpose, it naturally suffers a great shrinkage in value when sold for purposes of liquidation. The value of a public utility as a going concern and as a liquidating property would obviously be very different.

### Going Short

Selling short. (See Short Sale.)

### Gold Bars

Gold ingots. A part of the gold reserve of the Federal Reserve banks (as well as the central banks of Europe) consists of bars as distinguished from coin.

Bars of pure gold are obtainable at any United States assay office in quantities of \$5,000 or over. It may also be obtained from Federal Reserve banks in any quantity at the *Mint Price of Gold* (q. v.). The large New York banks frequently furnish gold bars to their interior correspondents and small quantities may be purchased from bul-

lion brokers at a slight premium over the mint price. Bars sold by assay offices are known as assay bars; those sold by private brokers are known as commercial bars.

Gold bars are used extensively in international settlements and are preferable to coin from the viewpoint of the exporter since they are subject to less loss by abrasion. Gold bars are also purchased for use in the arts and industries, *e. g.*, jewelry, art work, and dentistry. (See Assay Office, Coinage, Mint, Mint Fine Bars, Standard Bullion.)

### Gold Basis

See Gold Standard Act of 1900, Monetary Unit, Standard Money, Standard of Value.

### Gold Bonds

Bonds which by their terms are payable in gold coin "of the present standard of weight and fineness," if demanded, as distinguished from "Currency" or "Legal Money" bonds. Bonds may also be payable in currency, *i. e.*, any money which is legal tender, but bonds payable in silver are unknown in this country. Under ordinary conditions these bonds have no added feature of attractiveness. This feature would be valuable only in case of a serious currency disturbance in which gold would command a premium over depreciated paper money.

### Gold Brick

A stigmatic term used of securities or of business ventures which are unsound, worthless, or actually fraudulent, but which have, nevertheless, the appearance of soundness and attractiveness.

### Gold Certificates

A form of United States paper money which in effect are warehouse receipts certifying that full value in gold coin has been deposited in the United States Treasury for each dollar represented by the certificate. They circulate in lieu of an equivalent amount of actual gold, in which coin they are redeemable at the United States Treasury. They are, therefore, secured by 100 per cent. gold reserve.

Historically gold certificates were first circulated in 1863. The Act of March 3, 1863, authorized the Secretary of the Treasury to receive deposits of gold coin and bullion in sums not less than \$20, and to issue certificates therefor in denominations not less than \$20, said certificates to be receivable for duties on imports. Under this act deposits of gold were received and certifi-



cates issued until January 1, 1879, when the practice was discontinued by order of the Secretary of the Treasury. The purpose of the order was to prevent the holders of United States notes from presenting them for redemption in gold, and redepositing the gold in exchange for gold certificates. No certificates were issued after January 1, 1879, until the passage of the bank act of July 12, 1882, which authorized and directed

Reserve notes, and are largely held by the Federal Reserve banks as collateral therefor.

### Gold Clearance Fund

Same as *Gold Settlement Fund* (q. v.).

### Gold Coins

The following table exhibits the denominations, and weight and fineness of the United States gold coins:

Denominations	Fine Gold Contained Grains	Alloy Contained Grains	Weight Grains	Fineness
One dollar (\$1) (No longer coined) .....	23.22	2.58	25.80	0.900
Quarter eagle (\$2.50) .....	58.05	6.45	64.50	0.900
Half eagle (\$5) .....	116.10	12.90	129.00	0.900
Eagle (\$10) .....	232.20	25.80	258.00	0.900
Double eagle (\$20) .....	464.40	51.60	516.00	0.900

#### GOLD COINS

the Secretary of the Treasury to receive gold coin and issue certificates, and made them receivable for customs, taxes, and all public dues.

This act, however, provided that "the Secretary of the Treasury shall suspend the issue of gold certificates whenever the amount of gold coin and gold bullion in the Treasury, reserved for the redemption of United States notes, falls below one hundred millions of dollars." The act of March 14, 1900, reenacted this provision, and further provided that the Secretary may, in his discretion, suspend such issue whenever and so long as the aggregate amount of United States notes and silver certificates in the general fund of the Treasury shall exceed \$60,000,000. It provided further that of the amount of such certificates outstanding one-fourth, at least, shall be in denominations of \$50 or less and authorized the issue of certificates in \$10,000 denomination, payable to order.

The Act of March 4, 1907, provides for the receipt of deposits of gold coin in sums of not less than \$20 and the issue of gold certificates therefor in denominations of not less than \$10, and the Act of March 2, 1911, authorizes the issue of certificates against the deposits of gold bullion of foreign coin.

Gold certificates are issued in denominations of \$10, \$20, \$50, \$100, \$500, \$1,000, \$5,000, and \$10,000. They were not originally legal tender, but were made full legal tender by an act of Congress, December 24, 1919. These certificates have largely disappeared from circulation in recent years, since they are now eligible to secure Federal

While the gold dollar is the monetary unit and standard of value, the actual coinage of the \$1 piece was discontinued under authority of the act of September 26, 1890. Gold is now coined in denominations of \$2.50, \$5, \$10, and \$20, called respectively, quarter eagles, half eagles, eagles, and double eagles.

The total coinage of gold by the mints of the United States from 1792 to June 30, 1915, was \$3,378,099,628, of which it is estimated that \$1,606,405,032 was in existence as coin in the United States, while the remainder, \$1,771,694,596, represented the excess of exports over imports and the amount consumed in the arts. The amount of gold bullion was \$379,134,140.

United States gold coins are legal tender in all payments at their nominal value when not below the standard weight and limit of tolerance provided by law for a single piece, and when reduced in weight below such standard and tolerance are a legal tender in valuation in proportion to their actual weight. Since gold coins are subject to abrasion, their weight is subject to reduction (See Tolerance). The public does not generally concern itself about abrasion as long as the impression upon the coin is discernible. Gold, being the standard money and its value as coin depending upon its value as bullion, is not redeemable. (See United States Money.)

### Gold Dollar

See Gold Coins, Monetary Unit.

**Gold Exchange Standard**

A system whereby a country keeps its money on a gold basis by keeping it at a substantial parity with the money of a country maintaining a full gold standard. Countries having a gold exchange standard rely upon some form of token money for circulation purposes. Through operations in the foreign exchange market the domestic money is maintained at a value between the normal gold points. If the country's money, which is used as the standard, goes up to the gold export point in terms of the domestic money the gold exchange standard country (through the maintenance of balances in the country whose money serves as the standard) sells bills on such country until the exchange rate is pushed below the export point. Funds obtained from the sale of exchange are then sequestered until bills on the standard country are offered for it when the exchange rate drops to what would in turn be the gold import point. In this way the domestic money is kept at a normal gold value in the international market. The great advantage of the gold exchange standard is its economy, since no large investment in gold is necessary. India, Straits Settlements, Philippine Islands, Porto Rico, and a few other countries employ this system. (See Gold Points.)

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**Gold Export Point**

See Gold Points.

**Gold Exports**

See Gold Imports.

**Gold Import Point**

See Gold Points.

**Gold Imports**

The gold movement in and out of the United States as shown by gold imports and exports each year since 1912, is exhibited in the following table.

	Imports	Exports	Excess Imports
1922	\$275,169,785	\$36,874,894	\$238,294,891
1921	691,248,297	23,891,377	667,356,920
1920	417,068,273	322,091,208	94,977,065
1919	76,534,046	368,185,248	*291,651,202
1918	62,042,748	41,009,818	21,032,930
1917	552,454,374	371,883,884	180,570,490
1916	685,992,234	155,792,927	530,199,307
1915	451,954,590	31,425,918	420,528,672
1914	57,387,741	222,616,156	*165,238,415
1913	63,704,832	91,798,610	*28,093,778
1912	66,548,772	47,424,842	19,123,930

\* Excess exports.

**Gold Inflation**

A condition said to exist in a country when it possesses abnormally large holdings of gold, which are available as a basis of credit expansion. According to the exponents of the "quantity theory" of money, gold inflation is one of the causes of high prices. It is a condition which automatically tends to correct itself since high prices tend to discourage foreign buying and to encourage importing. This is likely to lead to an excess of imports over exports. Since an excess of imports usually is paid for in gold, a reduction in gold holdings is thereby effected. (See Gold Reserve.)

**Gold Movements**

See Foreign Exchange, Gold Imports, Gold Reserve.

**Gold Notes**

Notes payable in gold coin of the "present standard of weight and fineness," if demanded, in the same manner as *Gold Bonds* (q. v.).

**Gold Points**

Specie points; the gold export and import points which in normal times fix respectively the upper and lower limit to the range of fluctuation of currency or foreign exchange rates quoted for a given foreign country. Whenever the rate of exchange rises to a point where it would be cheaper for importers to export gold than to buy exchange, the gold export point is reached. Under ordinary conditions the gold export point on England is \$4.8965, 3c. per pound above the mint par of exchange, which representing the normal cost of shipping a pound sterling overseas. On the other hand, when the rate of exchange declines to a point where it is cheaper for foreign buyers to ship gold than to remit in exchange, the gold import is reached. Under normal conditions the gold import point on England is \$4.8365, 3c. per pound below the mint par of exchange.

In practice, of course, it is international bankers who have special facilities, rather than private individuals, who undertake gold shipments. (See Foreign Exchange.)

**Gold Production**

At the present time the United States produces about one-sixth of the world's output of gold. The principal gold producing countries in order of their importance are: Af-



rica (Transvaal, Rhodesia, and West Africa), United States, Australia, Canada, Mexico, British India, and Russia; other countries producing about twenty-five million dollars worth per year. Before 1840 practically all gold came from Russia. Gold producing countries are normally gold exporting countries.

The present world's monetary stock of gold is approximately nine billion dollars; and total stock of gold, including coin, bullion, jewelry and plate, is estimated to be about nineteen billion dollars. World production since 1492 is estimated at nineteen billion dollars, but there is an annual wastage through destruction, shipwreck, and abrasion. Over half, or \$10,635,000,000 has been produced since 1892. On October 1, 1921, the gold monetary stock of the United States was \$3,467,418,000, about 42 per cent.; and on June 1, 1922, \$3,170,007,000, about 40 per cent.; and on March 1, 1923, \$3,960,955,000, or about 48 per cent. of the then world's stock. The following table reveals that gold production, in the world and in the United States has declined since 1915.

#### GOLD PRODUCTION

Year	World	United States
1601-1620	†\$5,662,000	
1701-1720	†8,520,000	
1801-1810	†11,816,000	
1811-1820	†11,823,000	†\$73,112
1831-1840	†13,484,000	†564,950
1861	122,989,000	46,000,000
1866	129,614,000	53,225,000
1871	115,577,000	43,500,000
1876	103,700,000	39,929,200
1881	103,023,000	34,700,000
1886*	106,163,900	35,869,000
1891	130,650,000	33,175,000
1896	202,251,600	53,088,000
1897	236,073,700	57,363,000
1898	286,879,700	64,463,000
1899	306,724,100	71,053,400
1900	254,576,300	79,171,000
1901	260,992,900	78,666,700
1902	296,737,600	80,000,000
1903	327,702,200	73,591,700
1904	347,377,200	80,464,700
1905	380,288,700	88,180,700
1906	402,503,000	94,373,800
1907	412,966,600	90,435,700
1908	442,837,000	94,560,000
1909	454,059,100	99,673,400
1910	455,239,100	96,269,100
1911	461,980,500	96,890,000
1912	466,136,100	93,451,500
1913	459,939,900	88,301,023
1914	439,678,260	94,531,800

1915	468,724,918	101,035,700
1916	454,176,500	92,590,300
1917	419,422,100	83,750,700
1918	383,605,552	68,646,700
1919	365,166,077	60,333,400
1920	337,019,000	51,186,900
1921	329,915,000	50,067,000
1922	‡316,300,000	‡49,096,000

\* The estimates before 1886 are by Dr. Adolph Soeiber; for 1886 and after, by the Director of the U. S. Mint.

† Average for the period.

‡ Preliminary estimate.

(See Gold Reserve.)

#### Gold Reserve

The gold held in a nation's Treasury, or in the Government or central bank, which is available for (1) the redemption of circulating notes of the Government or of the central bank, and (2) export abroad to settle an unfavorable trade balance, to correct depreciated exchange rates, or as a loan to obtain higher interest rates than prevail at home. In the United States, the gold reserve is held almost entirely by the Federal Reserve banks and the Treasury; in Great Britain by the Bank of England; in France by the Bank of France; and in Germany by the Bank of Germany.

The United States Treasury is required by the *Gold Standard Act of 1900* (q. v.) to maintain a reserve of \$150,000,000 in gold against \$346,681,016 of United States notes, and this reserve is not permitted to fall below \$100,000,000. The Treasury also holds gold coin or bullion sufficient to redeem in full outstanding gold certificates. National banks are required to maintain a 5 per cent. fund in gold or lawful money in the Treasury with which to redeem National bank notes, if presented to the Treasury for redemption.

The vast majority of the gold reserve of the United States is held by the Federal Reserve banks as a central reservoir of credit. On July 12, 1922, the gold holdings of the system were \$3,035,833,000; on July 13, 1921, \$2,492,744,000, the amount having increased steadily since 1916. The gold reserve of the Federal Reserve System has four purposes: (1) to provide the 40 per cent. cover required for Federal Reserve notes; (2) to provide with the other forms of lawful money the 35 per cent. cover required for deposits; (3) to provide a gold settlement fund as a basis for the *Federal Reserve Inter-District Collection System* (q. v.); and (4) to provide a free gold market where it may be purchased or sold at home

or abroad. The proportion of the profits of the Federal Reserve banks to which the Government is entitled may be employed to build up the gold reserve.

The following table exhibits the amount of the gold reserves of the principal countries of the world for 1913, the last normal pre-war year, and 1918, 1920, and 1922. The changes in amount and percentage to the total gold holdings of the world reflect the changing fortunes of nations, and the extent of international gold movements:

The Federal Reserve Board acts as a clearing house for the Federal Reserve banks, and a special division of the Board has been created to supervise this function. Acting according to the authority with which the Federal Reserve Act vests it, the Board directed each Federal Reserve bank to forward to the Treasury or nearest sub-treasury \$1,000,000 in gold, and in addition an amount at least equal to its net indebtedness to all other Federal Reserve banks, so that the

GOLD RESERVES OF THE PRINCIPAL COUNTRIES

(Reported by the Federal Reserve Bulletin, June, 1922.)

(000 omitted.)

Country	Dec. 31, 1913		Dec. 31, 1918		Aug. 31, 1920		1922	
	Amount.	Per cent.	Amount.	Per cent.	Amount.	Per cent.	Amount.	Per cent.
United States .....	\$691,514	20.4	\$2,245,720	35.5	\$2,129,941	32.1	\$3,170,007	40.3
Great Britain .....	170,245	5.0	523,632	8.3	737,416	11.1	765,875	9.8
France .....	678,856	20.0	664,017	10.5	697,108	10.5	690,600	8.8
Japan .....	64,963	1.9	225,821	3.6	411,263	6.2	608,170	7.8
Spain .....	92,490	2.7	430,072	6.8	473,309	7.1	486,742	6.2
Argentina .....	224,989	6.6	269,628	4.3	450,057	6.8	450,057	5.7
Netherlands .....	60,898	1.8	277,155	4.4	255,808	3.9	243,593	3.1
Germany .....	278,687	8.2	538,861	8.5	260,035	3.9	238,407	3.0
Italy .....	288,103	8.5	243,566	3.9	203,834	3.1	212,604	2.7
Canada .....	142,517	4.2	190,688	3.0	172,002	2.6	153,971	2.0
India .....	72,780	2.2	63,842	1.0	126,905	1.9	118,341	1.5
Australia .....	21,899	0.6	104,143	1.6	112,966	1.7	113,876	1.5
Switzerland .....	32,801	1.0	80,041	1.3	104,213	1.6	105,149	1.3
Sweden .....	27,372	0.8	76,532	1.2	70,041	1.1	73,526	0.9
Denmark .....	19,666	0.6	52,159	0.8	60,991	0.9	61,191	0.8
Java .....	10,027	0.3	51,600	0.8	60,500	0.9	59,750	0.8
South Africa .....	39,905	1.2	33,579	0.5	54,991	0.8	58,885	0.7
Belgium .....	59,131	1.7	51,145	0.8	51,433	0.8	51,452	0.7
Norway .....	12,846	0.4	32,691	0.5	39,488	0.6	39,474	0.5
New Zealand .....	25,306	0.7	39,419	0.6	37,472	0.6	37,472	0.5
Brazil .....	53,202	1.6	15,571	0.3	19,464	0.3	25,628	0.3
Austria Hungary .....	251,421	7.4	53,074	0.8	45,113	0.6	9	0.0
Other Countries * .....	71,157	2.2	56,650	1.0	54,876	0.8	87,106	1.1
TOTAL .....	\$3,390,775	100.0	\$6,319,606	100.0	\$6,629,226	100.0	\$7,850,885	100.0

\* Jugo-Slavia, Czechoslovakia, Greece, Portugal, Finland, Bulgaria, Poland and Roumania.

(See Gold Production Reserve.)

Gold Settlement Fund

A gold fund held by the United States Treasurer, for the account of and subject to the order of the Federal Reserve Board, but belonging to the twelve Federal Reserve banks, the purpose of which is to effect with as little delay and cost as possible the settlement of inter-Reserve bank transactions. The fund is a part of the machinery of the *Federal Reserve Inter-District Collection System* (q. v.) provided for in Sec. 16 of the Federal Reserve Act. By means of this system *Domestic Exchange* (q. v.) is greatly facilitated, and the necessity for frequent gold and currency shipments from one part of the country to another has been practically eliminated.

first weekly settlement might take place May 27, 1915.

At the present time by means of a private wire system connecting all Federal Reserve banks and branches with each other and with the Federal Reserve Board, daily settlements are effected (since July 1, 1918). At the close of each day's business each Federal Reserve bank, and such branches in which the direct method of settlement has been introduced, telegraphs the Board the amounts credited to the other Federal Reserve banks for the day. On receipt of the telegrams the amounts are entered in the settlement books by the Board's settlement clerks, and on the morning of the succeeding business day, each Federal Reserve bank is telegraphed the amount of its net debit or credit, and the balance standing to the credit of its gold



settlement account. On the average the daily debits and credits of each Federal Reserve bank tend to offset one another. There are times, however, when funds move from one part of the country to another, *e. g.*, to the West during the crop moving period, and a bank's debits exceed its credits over a prolonged period. Should the amount of the net credit to a Federal Reserve bank be less than \$1,000,000, it would be required to send additional gold to bring its credit up to the required total.

Items which are cleared through the fund are inter-district check collections, inter-Reserve bank rediscounts, transfers of Treasury funds, redemptions of Federal Reserve notes, and transfers of funds for member banks to correspondents. The cost of this service is borne by the Federal Reserve banks, and is rendered without charge to member banks, who may telegraph the transfer of funds at par. The gold in this fund may be counted as part of the legal reserve of the owning Federal Reserve bank.

The gold settlement fund amounted to \$402,248,000 on July 13, 1921; to \$514,590,000 on July 12, 1922; and to \$658,617,000 on July 11, 1923. The average total weekly clearings are in excess of one billion dollars. Balances resulting from the clearings are on the average less than 7 per cent. of the total amount cleared.

### Gold Shipment Point

Gold Points.

### Gold Standard

See Gold Standard Act of 1900, Standard Money, Standard of Value.

### Gold Standard Act of 1900

Although the single gold standard was established by statute in 1873, gold did not become the actual standard until the resumption of specie payments in 1879. The Act of 1900, in providing that the gold dollar be the standard of value of the United States, merely reaffirmed the Act of 1873. This act provided that all forms of money issued or coined by the United States should be maintained at par with gold, and that it should be the duty of the Secretary of the Treasury to maintain such parity. The act, however, did not provide adequate machinery for the maintenance of this parity and placed a burden upon the Secretary of the Treasury which, if it came to actual test, would be difficult to fulfill. Nevertheless it did correct the chief defect of the old system by provid-

ing a means of maintaining the parity of United States notes (or greenbacks). Other forms of paper money already were fully secured; National bank notes by Government bonds; gold certificates by gold; and silver certificates by silver.

This act provides for the redemption of United States notes in gold on demand and for this purpose a reserve of \$150,000,000 to be kept in the Treasury, is provided. If this fund falls below \$100,000,000, the Secretary of the Treasury is required to restore it to \$150,000,000 by the sale of bonds. The gold in this reserve cannot be used to meet a deficit in revenue and United States notes once redeemed cannot be reissued, except in exchange for gold.

The Federal Reserve Act again specifically reaffirms the parity provisions of the Act of 1900 and makes due provision for enforcement by providing that the Secretary of the Treasury, in order to maintain such parity and to strengthen the gold reserve, may borrow by selling bonds authorized under the Act of 1900, or by selling one year gold notes, or to obtain gold by offering these bonds as security therefor.

### Gold Supply

See Gold Production, Gold Reserve.

### Good Delivery

When securities are lodged with a bank or broker as collateral, or for purposes of sale, they must constitute a good delivery. A good delivery of securities implies (1) that they are physically genuine, (2) that title is vested in the owner and properly conveyed by him, (3) that they are in negotiable form so that if it becomes necessary to sell them, either through default or failure to respond to a margin call, the bank or broker possesses good title for purposes of sale.

Rules of the New York Stock Exchange are based upon the usages and customs practiced over a number of years among brokers and banks, and accordingly are stringent. The following points should be observed in examining securities to determine whether they constitute a good delivery:

(1) Coupon bonds that are not registered pass from bearer to bearer without indorsement and therefore are readily negotiable without further action.

(2) Registered bonds must be assigned by the party in whose name they are registered.

(3) Stock should be assigned in blank by the person, firm, or corporation, in whose name it is registered.

(4) Securities that are assigned by an attorney must have a power of substitution executed on the reverse side of the certificate.

(5) Securities with an assignment in blank or power of substitution by an insolvent party are not a good delivery. If such securities are held by others than the insolvent at the time of the close of the transfer books they are a good delivery if the company gives an affidavit for each certificate or bond affirming that said securities were held on the date prior to the insolvency.

(6) Securities with an assignment in blank or power of substitution guaranteed by a member of the Stock Exchange suspended by insolvency are not a delivery and must be reguaranteed by a solvent member of the exchange.

(7) Securities with an assignment in blank or power of substitution executed by a firm that has ceased to exist are not a good delivery except before the close of the transfer books. The assignment must be proved or acknowledged before a notary public.

(8) Securities with either an assignment in blank or power of substitution witnessed by a deceased person are not a good delivery.

(9) Securities with an assignment in blank or power of substitution by a company that is dissolved and succeeded by one of the same name are a delivery only when the new company shall have signed the statement "Execution Guaranteed" under a date subsequent to the formation of the new company.

(10) Securities in the name of a corporation or an institution, or any name with official designation, are a delivery only when the statement "Proper papers for transfer filed by assignor," is placed on each assignment and signed by the transfer agent.

(11) Securities with an assignment in blank, or with a power of substitution, signed by a deceased person, or by a trustee, guardian, infant, lunatic, executor, administrator, assignee or receiver in bankruptcy, agents or attorneys, are not a good delivery.

(12) Securities signed by a married woman are not a good delivery. A joint assignment and acknowledgment by a husband and wife before notary public will make such security a good delivery only when the transfer books are closed.

(13) Securities in the name of an unmarried woman with the prefix "Miss" are a good delivery without notarial acknowledgment only when signed with the prefix "Miss." Otherwise, acknowledgment before a notary is necessary.

(14) Securities of a company whose transfer books are closed indefinitely for any reason, legal or otherwise, an assignment on

each power of substitution must be acknowledged before a notary public.

(15) Securities in the name of foreign residents are not a delivery on the day the transfer books are closed for payment of the dividends or registered interest, and reclamation can only be made on that day.

(16) Coupon bonds without the next maturing coupon and all subsequent ones attached are not a good delivery. If the next maturing coupon should be missing the clerk must call attention to that fact to the broker's messenger who will be required to sign a statement to the effect that such coupons are missing before the bonds will be accepted.

(17) Securities which have extraneous markings upon them, either writing or pictures in ink, are not a good delivery.

(See Delivery, Methods of Trading, Stock Transfers.)

### Good Till Cancelled Orders

Buying or selling orders lodged with a broker which are valid until executed or cancelled or countermanded. They are also known as open orders, and are usually indicated by the abbreviation, G. T. C. (See Orders).

### Goschens

Another name sometimes given to British Consols, due to the fact that Mr. Goschen, Chancellor of the Exchequer, was responsible for the reduction in the rate on these obligations from 3% to 2¾% in 1888. The rate was again reduced to 2½% in 1903. (See Consols).

### Gourde

See Foreign Moneys—Haiti.

### Governing Committee

See New York Stock Exchange.

### Government Assay Office

See Assay Office.

### Government Bonds

See Foreign Government Bonds, State Bonds, United States Bonds.

### Government Depository

A bank designated by law to receive deposits of Government funds. Most of the Treasury funds, except funds for redemption of National bank notes, Federal Reserve notes, and Federal Reserve bank notes, are deposited with the Federal Reserve banks. Member banks may also be designated by law to serve as depositories. (See Depository).



### Government Deposits

Funds of the United States Government, postal savings deposits, funds of the Government of the Philippine Islands, deposited with legal depositories. Any *Government Depository* (q. v.) is required by the Secretary of the Treasury to qualify for receiving Government deposits, by pledging as collateral for such deposits, such securities as are from time to time published as eligible. The amount and rates are also indicated in the published list of eligible collateral, which consists broadly of obligations of the United States Government and its territorial and insular possessions, state bonds, municipal bonds, dollar bonds of foreign governments, and certain approved bonds listed on some recognized stock exchange among the railroad, public utility, and industrial groups. Since Government deposits are secured by collateral, the depository bank is not required to maintain a reserve as in the case of other deposits. (See Deposits).

### Grace

See Days of Grace.

### Grades (Grading)

Standardization of the differences in quality of staple commodities so that they can be readily recognized for the purpose of facilitating trade. Wheat, corn, cotton, metals, coal, lumber, etc., are sub-divided in many grades representative of certain recognized and accepted standards in the trade. The Federal Grain Standard Act passed in August, 1916, vested the Secretary of Agriculture with authority to prepare standards of various grades of grain that may be traded in. Each exchange also defines its grain standards, which are maintained by Federal and state inspectors, and those engaged by the grain exchange.

To illustrate the case of wheat, twenty-one grades are deliverable on the Chicago Board of Trade, as follows:

Deliverable on contract at contract price:

- No. 1. Dark hard winter wheat
2. hard winter wheat
1. yellow hard winter wheat
2. dark hard winter wheat
2. yellow hard winter wheat
1. red winter wheat
2. red winter wheat
1. dark northern spring wheat
1. northern spring wheat
2. dark northern spring wheat
2. northern spring wheat
1. red spring wheat
2. red spring wheat

(2) Deliverable on contract at 5c a bushel under contract price:

- No. 3. dark hard winter wheat
3. hard winter wheat
3. yellow hard winter wheat
3. red winter wheat
1. hard white wheat
2. hard white wheat

(3) Deliverable on contracts at 8c a bushel under contract:

- No. 3. dark northern spring wheat
3. red spring wheat

Twelve grades of corn are deliverable, as follows:

(1) At  $\frac{1}{2}$ c per bushel over contract price:

- No. 1. white corn
2. white corn
1. yellow corn
2. yellow corn

(2) At contract price:

- No. 1. (mixed) corn
2. (mixed) corn

(3) At 2c per bushel under contract price:

- No. 3. white corn
3. yellow corn

(4) At  $2\frac{1}{2}$ c per bushel under contract price:

- No. 3. (mixed) corn

(5) At  $4\frac{1}{2}$ c per bushel under contract price:

- No. 4. white corn
4. yellow corn

(6) At 5c per bushel under contract price:

- No. 4. (mixed) corn.

The following are cattle grades: (1) good to choice steers, (2) fair to good, (3) common and light; (4) choice fat cows, (5) fair to good, (6) common, (7) cutters and canners; (8) prime export bulls, (9) best butcher bulls, (10) fair to good bologna bulls, (11) common bulls; (12) choice fat heifers, (13) fair to good, (14) common and light; (15) fair to good stockers, (16) common to fair, (17) milkers and springers.

The following are hog grades: (1) heavies, (2) extreme heavies, (3) light yorkers, (4) heavy yorkers, (5) medium, (6) pigs, (7) truck hogs, (8) roughs, (9) stag, (10) mixed and bulk of sales.

### Graduate Securities

A name sometimes given to securities which have been transferred from the New York Curb Market to the New York Stock Exchange. (See New York Curb Market).

### Grain

See Corn, Wheat.

**Grain Bills**

Bills of exchange drawn against shipments of grain. (See Bill of Exchange).

**Grangers**

A name sometimes given to the principal grain-carrying railroads, and include the Northern Pacific, Great Northern, Chicago, Milwaukee and St. Paul, Chicago, Burlington and Quincy, Chicago and Northwestern Union Pacific, Illinois Central, and Atchison, Topeka and Sante Fe.

**Grantor**

A donor; one who bestows a benefit. (See Trusts).

**Gratuitous Coinage**

Coinage of the standard metal without charge by the mints; coinage without *Brassage* (q. v.) or *Seigniorage* (q. v.). Gratuitous coinage is to be distinguished from *Free Coinage* (q. v.). (See Coinage).

**Gratuity**

A gift; donation; benefit. No member bank, or officer, director, or employee thereof, is permitted to make any gratuity to a bank examiner; nor is a bank examiner permitted to accept such a gratuity. To do so is a misdemeanor, and an offender is subject to fine or imprisonment.

**Greenbacks**

See United States Notes.

**Gresham's Law**

A monetary principle named after Sir Thomas Gresham, Master of the English Mint under Queen Elizabeth, who while not the first to recognize it, was the first to clearly enunciate it and give it official standing. This principle is that an over-valued money of equal legal tender power tends to displace an under-valued money; that bad money (mutilated or debased money) drives good money out of circulation; or that cheaper money supplants dearer money.

It has long been recognized that two kinds of money of equal legal tender power and nominally of equal value, but in reality of unequal value, cannot be kept in concurrent circulation. The cheaper money becomes a standard of value because people will pay their debts in the cheaper money and hoard, melt, or export the dearer money, or the dearer money commands a premium over the cheaper money. It is the operation of Gresham's Law that makes it desirable for a

Government to provide for redemption of its over-valued metallic coins and paper money in standard money.

**Groat**

An English silver coin equal to four pence.

**Gross Debt**

Total debt without making adjustments for possible offsets.

**Gross Deposits**

Aggregate of deposits without making deductions for contra-deposits which a bank may have lodged with other banks. The determination of gross deposits is somewhat technical and in the case of member banks of the Federal Reserve System, must be computed on the basis of a formula prescribed by the Federal Reserve banks. State banks compute gross deposits on the basis of a formula prescribed by the State Banking authorities. Government deposits are not included in gross deposits. (See Net Deposits).

**Gross Earnings**

Total receipts of income; *Gross Revenue* (q. v.).

**Gross Profits**

Profits on goods sold without deducting selling and general administrative expenses. Gross profits are determined by subtracting the cost of goods sold from the amount received from their sale. It is termed gross profits because selling and administrative expenses must be deducted in order to determine *Net Profits* (q. v.).

**Gross Revenue**

In railroad and public utility accounting, the total receipts from operations, corresponding to gross sales in an industrial or mercantile business.

**Ground Floor**

An expression used in finance to designate the specially reduced price at which the promoters, founders, or underwriting syndicate, sell the stock of a new corporation to selected persons before it is offered to the general public at a later date. The term refers especially to securities which rise rapidly in value after they have been offered to the public, but which have been offered to a favored few below the public offering price.



**Guarantee**

See Guaranty.

**Guaranteed Bank Deposits**

See Guaranty of Bank Deposits.

**Guaranteed Bonds**

Bonds the payment of the principal or interest, or both of which, has been guaranteed by a party other than the original debtor. Railroad and industrial corporations sometimes guarantee the bonds and notes of leased or controlled companies, or subsidiaries, or companies in which they are financially interested in order to strengthen their credit, or to elevate their investment position.

While the market value of bonds guaranteed by another party is undoubtedly enhanced by such guaranty, investors should not purchase this class of bonds because of the guaranty alone. Such bonds should be intrinsically sound in themselves without the guaranty, since it may be difficult to enforce the guaranty against the guarantors in case of default of the principal debtors in an action at law. Guaranteed bonds should be supported by sufficient security to meet the principal and interest, and the guaranty should be in such form as to compel the guarantor to meet any deficiency on the part of the principal debtor.

When bonds are guaranteed after their issue, the guaranty appears in a separate instrument, and the fact of guaranty is not recited on the face of the bond at all. When bonds are guaranteed by indorsement, the fact of guaranty is stated on the face of each bond, which contains the signature of the guarantor company.

Guaranteed bonds are similar to *Assumed Bonds* (q. v.), and *Indorsed Bonds* (q. v.).

**Guaranteed Letter of Credit**

See Letters of Credit.

**Guaranteed Stocks**

Shares of stock the payment of the principal or dividends, or both of which, have been guaranteed by a corporation other than the issuer. Guaranteed stocks arise under much the same circumstances as *Guaranteed Bonds* (q. v.), but they are particularly creatures of railroad finance. Most guaranteed railroad stocks are guaranteed as to dividends only, and arise by reason of one railroad company leasing its property to another, in return for which the lessee corporation guarantees the payment of dividends at a stipulated rate on the stock of the lessor

corporation. In default of payment of dividends, the lessor may take back its property.

Preferred stocks are sometimes erroneously called guaranteed stocks.

**Guarantor**

A surety; one who guarantees payment. A person, firm, or corporation may agree to guarantee a note for another party and become liable by indorsement to pay the obligations of another in case of failure or default by the original maker (principal debtor). Thus either or both the principal and interest on bonds, and dividends on stocks, are sometimes guaranteed. (See Guaranty, Guaranteed Bonds, Guaranteed Stocks.)

**Guaranty**

A contract or undertaking in which the signer, *i.e.*, guarantor, engages that the promise of another, shall be performed, usually the payment of a debt or the performance of a contract. A guaranty is a contract in which a third party, the guarantor, intervenes in an agreement between two persons by becoming responsible to one for the default of the other, the person for whom the guaranty is made being known as the guarantee. For example, if Railroad No. 1 guarantees the bonds of Railroad No. 2 the former is a guarantor, and promises their payment in case the latter fails to fulfill its obligations. (See Guaranteed Bonds).

There are two kinds of guaranties, guaranty of payment, and guaranty of collection. In the first case the guarantor is in default the moment the debt is due and unpaid, while in the second the guarantor is in default only after the principal debtor has been sued, and the creditor (guarantee) has employed every expedient to enforce payment.

When a bank issues a commercial letter of credit it requires the person for whom it is issued to sign a guaranty to pay all drafts issued thereunder, and to be responsible for the validity, correctness, and genuineness of the supporting document. A typical form of Letter of Credit Guaranty is:

Gentlemen:

In consideration of the issuing by the Blank Bank of New York of their commercial letter of credit,

No. ....  
 for account of.....  
 in favor of.....  
 amounting to .....  
 Available by.....sight drafts,

we hereby agree unconditionally the payment of all drafts issued under and in compliance with the terms of said commercial credit, at their maturity.

It is understood that neither you, nor your agents here or abroad, will be responsible for the validity, correctness and/or genuineness of the documents purporting to relate to aforesaid credit, nor for the quality, quantity, and/or arrival of the merchandise described in such documents.

You are to receive a commission of..... per cent together with all expenses incurred by you in connection with arranging the credit and the execution thereof. At least .....day(s) prior to the maturity of any draft or drafts, the undersigned is to place you in New York funds sufficient to pay each acceptance with interest, if any, and all other charges relating thereto.

Two forms of guaranty agreements are used in connection with bank loans, a continuing guaranty and specific guaranty. In the former the guarantor is responsible for the default of the debtor for whom the guaranty is made up to a certain limit so long as the agreement is in force, and may therefore cover all the loans of the debtor. In the latter the guarantor holds himself responsible only for a particular described loan.

The following are typical forms of guaranty agreements:

CONTINUING GUARANTY

....., the undersigned, in consideration of One Dollar, receipt whereof is hereby acknowledged, and the credits, discounts, purchases or loans given or made as hereinafter mentioned, do hereby unconditionally guarantee to the Blank Bank of New York City (hereinafter called the Bank), its successors and assigns, that if before written notice from the undersigned, or any of them, not to give further accommodation hereunder, the Bank shall give any credit to ..... (hereinafter called the Debtor) or discount, or purchase, or make any loan on, any commercial paper made or indorsed by the Debtor, all sums payable upon all such credits, loans, discounts and commercial paper shall be paid in full when respectively due, and, in case of extension of payment of any thereof, in whole or in part, all sums payable thereon shall be paid when due according to such extension; and also so agree to indemnify and save harmless the Bank, its successors and assigns, for all costs and ex-

penses, including counsel and attorneys' fees of enforcing the obligations of the undersigned hereunder, and/or collecting any item whose payment is hereby guaranteed.

This shall be a continuing guaranty, but the liability of the undersigned hereunder shall not exceed.....Dollars (\$.....), exclusive of any liability on account of said costs and expenses.

Presentment or demand of payment from maker, and notice of receipt or acceptance hereof, or of intention to act, or of acting hereupon, or of non-payment, or of protest, or of sale of securities, are hereby waived by the undersigned.

Consent is hereby given by the undersigned that, from time to time, without notice to the undersigned, payment of any sum or sums payable upon any item whose payment is guaranteed hereunder, or any security for the payment thereof, may be extended in whole or in part, and any such security may be exchanged or surrendered.

SPECIFIC GUARANTY

In consideration of One Dollar, receipt whereof is hereby acknowledged, and of the discount or purchase of, or credit, loan or extension of time given or made on, the following described instruments:

.....  
 .....

By the Blank Bank of New York City (hereinafter called the Bank)..... hereby unconditionally guarantee to the Bank, its successors and assigns, the genuineness of said instruments, including indorsements thereon, and payment thereof when respectively due, and, in case of extension of payment of any thereof, in whole or in part, payment of all sums due thereunder when due according to such extension or extensions; and hereby consent that, from time to time, without notice to the undersigned, payment of any of said instruments or of any securities therefor may be extended in whole or in part, or any of the securities may be exchanged or surrendered; and hereby waive presentment, demand of payment from the maker, protest and notice of non-payment or protest, or of sale of securities, or of acceptance hereof or of intention to act or of acting hereupon; and agree to indemnify and save harmless the Bank, its successors and assigns, from all costs and expenses, including counsel and attorneys' fees, of enforcing the obligation of the undersigned hereunder and/or collecting any of said instruments.



If the undersigned be more than one person, whether individual or corporate, their obligations hereunder shall be joint and several.

### Guaranty Fund

A fund which the organizers of a non-stock (mutual) savings bank must create and subscribe in order to meet possible losses through decline in value of investments. In New York State the initial guaranty fund must be not less than \$5,000. If the guaranty fund should subsequently be less than 10 per cent of the amount due to depositors, then 10 per cent of the net earnings for each year must be credited to the guaranty fund unless such amount should prohibit the bank from paying at least 3½ per cent. dividends. In such case, only such amount as is left after paying 3½ per cent. dividend, must be credited to the guaranty fund. This fund belongs to the depositors, but no distribution of it can be made to the depositors (under the New York law) until the fund is in excess of 25 per cent. of the deposits.

### Guaranty of Bank Deposits

Insurance of the payment of deposits to depositors in banks which become insolvent by bad management, embezzlement, or otherwise. While the great banks of issue in Europe and the United States for many years have guarded their note issues so strictly as to practically preclude the possibility of loss, the policy of protecting deposits is a new departure in American banking, deriving its original impetus from the panic of 1907. Oklahoma passed the first deposit-guaranty law in 1908, and its example subsequently was followed by Kansas, Nebraska, Texas, North and South Dakota, Washington, and Mississippi.

The Kansas law, passed in 1909, may be taken as embodying typical features of each. This law provides for an annual assessment of one twentieth of one per cent of average deposits upon each bank voluntarily entering the system, but in computing the amount of deposits, the bank is allowed to deduct the amount of its combined capital and surplus. This last provision is held out as an inducement to accumulating a large capital and surplus. These annual assessments continue until the fund reaches \$500,000, after which it is discontinued until the fund falls below that amount. Should the fund become depleted the banking commissioner may levy such additional assessments as are necessary, but not to exceed five assessments of one-

twentieth of one per cent of deposits in any one year. The fund is held in the custody of the State Treasurer subject to the order of the banking commissioner. In case a bank becomes insolvent, the commissioner takes charge of its affairs, issues to each depository an interest-bearing certificate, and then pays these off as soon as the assets of the failed bank are liquidated. If these assets should prove insufficient to cancel the certificates, the banking commissioner then certifies to the State Treasurer the balance yet due, and the latter pays such balance from the guaranty fund.

The Oklahoma law (the first passed) permitted National banks to join the system if they chose to do so. The Attorney-General of the United States decided that such participation would be an exercise of powers not contemplated by any act of Congress, and, therefore, unlawful.

Another form of deposit insurance is that provided by private insurance companies. This form has been held admissible for National banks by the Attorney General of the United States. H. White says that "from all points of view it is to be preferred to the deposit-guaranty laws of states." \*

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### Guardian

A person appointed by a court, and under certain conditions by a will, to administer the estate of a minor. Either parent of a child may execute a will appointing the other the guardian of the person and property of such child during its minority. A surviving parent of any child likely to be born or of any living child less than 21 years of age and unmarried, may appoint any person or persons as guardian of the person and property of such child or children, by will. It is the duty of a guardian to take custody and charge of the tuition of the ward and to take custody and management of his estate. The guardian is required to conserve the property of the ward in his custody so that it shall not suffer depreciation, and to turn over to the ward the income derived therefrom. When the ward shall have arrived at the age of 21, the estate is delivered to the ward under the order of the court. The guardian is required to make frequent accounting reports to the court

\* Money and Banking, p. 480.

during his guardianship; in New York, for instance, at the end of each calendar year.

Trust companies and banks having fiduciary powers may act as guardian.

**Guilder**

Same as Gulden. (See Foreign Moneys—Netherlands.)

**Guinea**

A former English coin of the value of

21 shillings, not coined since 1813. It was so called because made from gold brought from Guinea.

**Gulden**

See Foreign Moneys—Netherlands.

**Gusher**

An oil well which produces large quantities, especially one that flows without having to be pumped.



## H

### Half Crown

An English silver coin of the value of 2½ shillings. It was first coined in 1551.

### Half Dime

A former United States silver coin not coined since 1873. They were the first coins minted by the United States Mint and were legal tender in amounts up to \$10.

### Half Dollar

A United States silver coin containing 173.61 grains of fine silver and 19.29 grains of copper alloy, and is 0.900 fine. It is legal tender in amounts up to \$10. (See Subsidiary Silver Coins, Token Money.)

### Half Eagle

A United States gold coin of the value of \$5.00. Its composition is the same as, and its weight one-half that of, the *Eagle* (q. v.). (See Gold Coins.)

### Half Penny

An English bronze coin equal to one-half the value of the penny, and approximately equal in value to the United States one-cent piece.

### Half Sovereign

An English gold coin being half the value of a sovereign (pound sterling), and therefore equivalent to 10 shillings. It is eleven-twelfths fine and equivalent to \$2.43328 in United States money.

### Half Stock

Shares of stock of \$50 par value, so-called because most shares are \$100 par value. Quotations for half stocks on the New York Stock Exchange were formerly on the basis of two shares. Thus the shares of the Pennsylvania and Lehigh Valley Railroad companies each having \$50 par value, were quoted at a price for two shares representing \$100 par value.

### Hammer the Market

An expression to denote the heavy and persistent selling of stocks by professional speculators operating on the "short" side actu-

ated by the belief that prices are inflated and that a period of liquidation is imminent. When the "bears" make a raid upon the stock market they are said to "hammer the market."

### Hammond's Time

The official time of the New York Stock Exchange by which its opening and closing, and close of the recognized settlement period, are regulated.

### Hard Coalers

See Anthracite Roads.

### Hard Cash (Money)

A term to denote metallic money as distinguished from paper money. It is also more loosely used to denote cash assets (whether actual currency or bank balances), as distinguished from other quick assets, *e. g.*, notes and accounts receivable, inventories, and readily marketable securities.

### Harden

A stock exchange expression to indicate a stiffening or strengthening of prices throughout the list due to increased buying, especially following an interval of price declines.

### Hard Spot

A stock exchange expression to denote any single stock which stands out prominently in the day's quotations because of its firmness or strength when the rest of the list is soft, *i. e.*, tends to decline.

### Harter Act

An Act approved by Congress February 13, 1893, which sets forth the liabilities of shipowners in the carriage of goods at sea, and indicates the contents of the limiting clauses which an ocean carrier may place in its bills of lading.

### Heavy

A stock or produce exchange expression used to denote a drop in prices due especially to selling of long stock (or commodity contracts) by holders who are taking profits. It is a condition which exists in a market

when supporting bids are not in sufficient volume and high enough to absorb offerings without price concessions, so that the prevailing price level declines. A heavy market is to be distinguished from a weak market, which is a liquidating market, and also from a sagging market in which price declines on the average are merely fractional.

### Hedge (Hedging)

Reduced to its lowest terms, a form of insurance used among dealers in grain, cotton, foreign exchange, or securities, to prevent loss through price fluctuations. Hedging in grain is commonly practiced by elevator companies, millers and exporters. Foreign exchange bankers, brokers, and dealers also practice hedging, which consists of selling by one who is "long" and buying by one who is "short," of an equal amount of the commodity dealt in. Thus a person who hedges is in a neutral position,—he is committed to both "long" and "short" contracts for an equal amount.

A typical illustration of hedging is that practiced by a flour mill, although the same principle is involved in the case of a textile mill. Suppose a miller has contracts to deliver to customers 4,000 barrels of flour a week for the next six months at a stipulated price. This output will require approximately 470,000 bushels of wheat, more than even the largest miller can carry in stock. It represents a value, moreover, which if purchased at \$1.00 a bushel, means an investment of \$470,000. Should the wheat decline only 1c a bushel, a loss of \$4,700 is involved. This risk is so great that millers as a class cannot afford to take it. Millers are not speculators, but are in the business of milling, and derive their profits from milling operations; not through price fluctuations. To avoid assuming this risk, therefore, the miller sells in the future markets an equal amount of wheat, distributing his future sales contracts to mature at times he needs to buy cash wheat for filling his flour contracts. In other words, as fast as he buys cash wheat from samples that meet his milling demands, he sells an equal amount of future contracts at a stipulated price. Instead of actually making delivery, however, millers usually sell their contracts to professional speculators, or others who may want wheat at the delivery time. In case the price of wheat goes up, the miller, of course, has made a profit on his holdings of cash wheat. This profit, however, is offset by the necessity of having to pay a higher price when he covers his contract on de-

livery date. What he gains in the cash transaction is lost in the future transaction. On the other hand, if the price declines, the loss on his holdings of cash wheat is offset by having to pay a lesser price when he covers his contract on the delivery date. Thus, whether the price rises or falls, the hedger gains (or loses) as much on his cash contracts as he loses (or gains) on his future contracts.

The expense for hedging 5,000 bushels of grain, buying and selling (round turn), is \$12.50, which is relatively cheap insurance.

A person who owns stocks may also hedge. Suppose one owns 100 shares of U. S. Steel purchased at 100. The price has declined to say, 95 and the prospects, as indicated by the chief business barometers, are for a still greater decline. By selling 100 shares with the intention of subsequently buying them back at a lower price, hedging is accomplished. Thus if the stock declines to 80, the hedger covers at a 15 point profit, thus wiping out most of the loss on his original purchase. If the stock should rise to 105, the hedger can cover his contract by delivering his original purchase without loss on the transaction. Thus hedging, contrary to popular impression, whether in commodities, foreign exchange, or in securities, is the very opposite of speculation, undertaken in fact, for the purpose of avoiding the risk of price changes.

### Heir

In a strict technical sense, a person, also known as an heir-at-law, who is entitled to the real property, or a proportionate share thereof, left by a deceased person who made no will, *i. e.*, a person who succeeds to an intestate estate. In civil law the term has a broader meaning, and includes any person who is created successor of an estate by the operation of law or by will. In the first case (of intestacy) he is the next of kin, and is called the heir-at-law, or heir by intestacy; in the second case, the testamentary heir. No person can be an heir of a living person, but may be an heir apparent.

A direct heir is a lineal descendant, or one in the direct line of the decedent, *e. g.*, son, daughter, father, mother, grandson, granddaughter. A collateral heir is one not in direct line of the decedent, *e. g.*, brother, sister, uncle, aunt, nephew, niece. (See Devise, Legacy.)

### Heir-at-Law

See Heir.



**Heller**

See Foreign Moneys—Austria, Hungary.

**High Finance**

An expression used to indicate the unwarranted or speculative use of funds belonging to others. Thus the officers of a bank or other company who use the company's money for financing an unsound venture, or for the purpose of buying speculative securities for the purpose of making speculative profits, are guilty of high finance. Any situation in which the money of other people is used by a person or concern in a speculative manner. The expression also refers to the practice of borrowing to the utmost limit on one's assets, *i. e.*, trading on a thin equity.

**High Grade Investments**

Investments of superior merit; bonds or other obligations upon which the principal and interest will be paid under any circumstances which may be reasonably conceived. Most civil bonds, and such bonds of seasoned corporations as are secured by underlying mortgages, and are protected by a long record of earnings and dividend payments, belong to this class. In general the underlying bonds of seasoned railroad, public utility, and industrial corporations, and the bonds of the United States Government, and its political subdivisions enjoy the highest investment rating. Perhaps a few preferred stocks may be included under this heading.

Specific bond issues are given an investment rating in Poor's Manual. (See Manuals.)

**Hoarding**

Storing money in a secret place. Ordinarily current funds received by individuals or concerns are deposited in banks or used in trading transactions, thus being kept in circulation. Hoarded money is money which is withdrawn from circulation for which use it was intended.

Hoarding may result from three causes: (1) bank depositors during a panic may start a "run" on a bank by withdrawing their cash for fear that they will not later be able to do so; (2) illiterates and immigrants, skeptical of the safety of banks, or ignorant of their advantages, sometimes keep actual money savings in a hidden place, where obviously it earns no interest; (3) when paper money is not maintained on a parity with metallic money which is worth more, the latter may be hoarded or sold at a premium.

**Holder**

The bearer in possession of an instrument; the payee or indorsee of a bill of exchange, check, or note; the person who holds the equitable title to an instrument. (See Holder in Due Course.)

**Holder in Due Course**

According to the Negotiable Instruments Law, a person who has taken a negotiable instrument (check, note, or bill of exchange) under the following conditions: (1) that it is complete and regular upon its face; (2) that he became the holder of it before it was overdue, and without notice that it had been previously dishonored, if such were the fact; (3) that he took it in good faith and for value; and (4) that at the time it was negotiated to him he had no notice of any infirmity in the instrument or defect in the title of the person negotiating it.

**Holding Company**

A parent corporation which owns all or the majority of the stock of its constituent subsidiaries. A holding company may be, but usually is not, an operating company, and is organized chiefly for the purpose of owning the securities of the corporations it desires to control. Ownership may be secured by the exchange of its own securities for the securities of its subsidiary corporations, or through the purchase of the securities of its constituent companies from the proceeds of sale of its own securities. It is a favorite device for concentrating control of large properties in the hands of a comparatively few persons with a minimum of capital and maximum of liability. The purpose of a holding company is usually to effect a combination of competing concerns in order to curtail competition and still meet with the requirements of the law, or to secure uniformity of and centralization in management and to effect economies in operation.

United States Steel Corporation and Cities Service Company furnish typical examples of holding companies. (See Parent Company.)

**Holding the Market**

Supporting the market. (See Support.)

**Hold-Overs**

Checks and other items which, because of errors or other irregularities, *e. g.*, missing bank stamp, post-dating, etc., cannot be collected on the day of receipt and held over

as cash until the following day, or until the irregularity can be adjusted.

### Holidays

See Bank Holidays.

### Home Debit

A *Self-Check* (q. v.); a term used among bank employees to designate checks deposited for credit or presented for payment at the bank on which they are drawn.

### Honor

To pay a check or demand draft when it is presented to the drawee for payment, to accept a time draft or other time instrument when presented at maturity. A bank honors a check when it pays it. (See Acceptance for Honor, Dishonor, Payment for Honor.)

### House Bills

Bills of exchange drawn by a bank or other institution on its branch, agency, or subsidiary abroad. They are usually single-name bills.

### Hung Up

An expression used to describe the condition of an investor or speculator who has purchased securities the prevailing prices of which are below the original purchase prices, and which, therefore, cannot be disposed of without loss; to be loaded up with undesirable securities thereby tying up the owner's capital, and preventing him from making other commitments at favorable opportunities.

### Hydro-Electric Company Bonds

Bonds of companies producing and selling electrical energy.

### Hypothecary Value

Loan value; collateral value; the value of securities or other collateral, *e. g.*, notes, acceptances, etc., when placed on deposit with the lender, as a pledge for the payment of a loan. Good bonds usually have a hypothecary value equal to from 75 to 90 per cent. of their market value. (See Collateral, Hypothecation.)

### Hypothecation

The deposit of securities, or other collateral, *e. g.*, notes, acceptances, bills of lading, warehouse receipts, etc., as a pledge for the payment of a loan. Securities must be in negotiable form before they are acceptable as *Collateral* (q. v.).

### Hypothecation Certificate

A certificate attached to a bill of exchange drawn against a shipment of goods, which describes the nature of the shipment, and authorizes the banker buying the bill to dispose of the goods in case payment or acceptance of the bill is refused. The hypothecation certificate, also known as a letter of hypothecation, is given by the seller of the bill together with the bill of lading, insurance certificate and other documents, as further security to the buying bank.

A general hypothecation power is sometimes executed by habitual drawers of bills of exchange which is applicable to all the bills which they may sell to their bankers. This is held by the purchasing bank.



# I

## Identification

A bank is liable to a customer for paying a check to an unauthorized payee, and a bank, therefore, must use great care in paying out its funds. When an account is opened the identity of the principals should be established immediately and their signatures placed on file.

Checks or other instruments should not be cashed for persons who are unknown. If a check is presented by a stranger, it should not be cashed until the indorsement or guarantee of one of the bank's customers can be secured. This is the best identification. In the case of small items or checks drawn under letters of credit, personal letters, passports, or an identification book may be accepted as identification media.

Very often a concern's payroll clerk, or persons other than the principal of the account present payroll checks, and authority may be given by the principals for this purpose. The identity of the person receiving the funds should always be established, however, by requiring him to indorse the check. Paying tellers are not usually permitted to cash checks drawn on other banks without approval from an officer. (See Finger Print Identification, Signature Department, Signatures.)

## Idle Money

Loose funds not being employed; money awaiting investment; free capital.

## If Issued

See When Issued.

## Illiquid

Not really convertible into cash; the opposite of liquid. Illiquid assets are those which can be realized upon only with difficulty, or at a sacrifice in value. Fixed assets are illiquid assets.

## Immediate Credit Account

A deposit account which enjoys a special privilege. Banks sometimes agree to credit for interest purposes all local items deposited by a customer immediately upon receipt, and out-of-town items immediately upon collection. Many depositors' accounts do not

bear interest at all and usually interest does not accrue on check deposits until one day after collection on the principle that the funds must remain in the bank one day before they are entitled to bear interest.

## Impaired Capital

Whenever a bank or other corporation incurs losses in excess of combined surplus and undivided profits, the capital becomes impaired. In the case of a bank, impaired capital must be restored, otherwise liquidation is enforced by the banking authorities.

## Impaired Credit

Weakened or diminished credit, especially as expressed in the reduction or total withdrawal of credit usually extended to a concern by its banking connections. Impaired credit may be the result of a breakdown in any one of the essential elements of a credit risk—moral risk, business risk, or property risk. (See Credit, Line of Credit.)

## Import Credit

See Letters of Credit.

## Import Duty

See Customs Duty.

## Import Letter of Credit

See Letters of Credit.

## Import Specie Point

See Gold Points.

## Improvement Bonds

A sub-classification of municipal bonds.

Bonds issued by a municipality or district for the erection of public works, or other improvements usually with more specific titles, *e. g.*, public improvements, or street improvement bonds. They are sometimes *Special Assessment Bonds* (q. v.). Improvement bonds are municipal debentures and are not to be confused with *Improvement Mortgage Bonds* (q. v.).

## Improvement Mortgage Bonds

Bonds secured by a junior mortgage (usually on a railroad or public utility property)

to provide for improvements or additions. These bonds are practically equivalent to general mortgage and refunding bonds, and like general mortgage bonds are customarily authorized and issued in sufficient quantity not only to provide for future betterments, but to retire the underlying mortgage bonds as they mature. When first issued they represent a second or perhaps third lien, but upon the retirement of the prior or underlying issues they may eventually become a first lien.

They are to be distinguished from extension bonds which are secured by additional real property or right-of-way, and from improvement bonds which are municipal or quasi-municipal issues. (See Extension Bonds, Improvement Bonds.)

**Inactive Account**

An account with a bank which shows a stationary or declining balance and against which both deposits and withdrawals are infrequent; or an account with a broker which shows few transactions, either purchases or sales. (See Active Account.)

**Inactive Market**

A market in which the volume of sales for the day or other period is small in comparison with average transactions. In an inactive

not traded daily, some not being quoted more than once a month. From the standpoint of collateral (loan) value, any security which is traded every day is regarded as active. From a broker's standpoint, however, a security may not be regarded as active unless, say, 50,000 shares per day are sold, whereas an inactive security might be one in which, say, 500 shares or less, are sold. (See Active Securities.)

**In and Out**

An expression used among speculators to denote a transaction quickly turned over. One who buys or sells (or vice versa) a security on the same day, or within a brief period, is in and out of the market.

**Income**

A term used in income tax accounting to indicate money received by a person, firm, or corporation from all sources over a period of time, usually a year. In a narrow investment sense, the term means the periodic (usually annual) accrual or return upon one's investments or income bearing property, *e. g.*, stocks, bonds, mortgages, notes, real estate, etc., as distinguished from return for services, *e. g.*, salaries, commissions, etc.

The derivation of income may best be shown by the following outline:

	— Property —	— Income —
Property	(1) Land .....	Rents
Income	(2) Capital Investments .....	Interest, Profits
	(3) Speculative Investments .....	Profits, Dividends
	(4) Appreciation and Depreciation on Capital Goods .....	Profits
Service	(1) Wages	
Income	(2) Salaries	
	(3) Fees, Commissions, Royalties, Tips, etc.	

KINDS OF INCOME

stock market the number of securities dealt in and number of shares per transaction are small due to lack of public participation. An inactive market is usually one in which trading is largely confined to professionals. On the New York Stock Exchange sales of 500,000 shares or less per day would be considered as inactive. (See Active Market.)

**Inactive Securities**

Stocks or bonds, whether listed on the New York or other stock exchange, not frequently traded in. There are degrees of activity and inactivity. Many securities are

**Income Basis**

See Basis, Income Return, Yield.

**Income Bonds**

Bonds the payment of interest upon which is contingent upon earnings. Income bonds usually grow out of railroad reorganizations in which holders of defaulted mortgage bonds are required to accept income bonds. The principal of income bonds may be secured by a mortgage but one which constitutes only a junior lien, or they may be collateral trust bonds or plain debentures. Interest upon income bonds does not consti-



tute a fixed charge, and is payable out of earnings only after all fixed charges have been met. Failure to pay interest on income bonds, except when earned, does not entitle the bondholders to the right to sue. Interest is not paid if earnings are insufficient, but if the entire interest requirements for the issue are not earned, usually such portion as is earned may be declared payable. Income bonds are cumulative or non-cumulative and bear no coupons, interest usually being declared by the Board of Directors, as in the case of stocks.

Obviously, income bonds are not high grade investments and are the least desirable of all the bonds of a given corporation. They rank just above the preferred stock.

### Income Return

The money accruing or earned upon an investment per year. The income return upon stock is found by dividing the amount of annual dividends by the purchase price; thus, if U. S. Steel common is purchased at 80 and pays \$5.00 in annual dividends, the income return is 6.25 per cent. The income return on bonds may mean two things, the annual return upon purchase price, or yield if held to maturity. The former is ascertained in the same way as the income return from stock, *i. e.*, by dividing the annual amount of interest by the purchase price. For the return if held to maturity, see *Yield*.

### Income Tax

A complete treatment of this subject is impossible in this work. The following bibliography is given:

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### Incoming Exchanges

Checks presented at a clearing house by other member banks upon the *bank against which they are drawn* in the clearing process. In the exchange of checks at the clearing house, each bank is presented by other member banks with the checks drawn against it which other banks previously have taken for credit. Incoming exchanges are the checks which each bank receives at the clear-

ing house from other members, as distinguished from the checks which each bank presents against the other member banks. Incoming exchanges represent debits to the receiving bank's depositors' accounts. (See Clearing House, Clearing House Exchanges.)

### Inconvertible Paper Money

See Fiat Money, Irredeemable Paper Money.

### Incorporated Trustee

A trust company; a bank authorized by law to act in a fiduciary capacity, as distinguished from an individual trustee. (See Trustee.)

### Indenture

A deed or agreement under seal between two or more parties, so called because originally a deed was indented or zigzagged along one of the margins. Since issued in duplicate, proof of genuineness or falsity of the documents was secured by comparing the indentations on the original with the duplicate, which if genuine, coincided with the original. In modern usage this term is equivalent to mortgage indenture or *Deed of Trust* (q. v.).

### Independent Banking System

A banking system in which banking is conducted by separate, local institutions, owned in the community in which they are established, locally managed, and having a single office, or if branch offices, the latter are confined to the same city. Independent banking is one of the features of the American banking structure, as distinguished from branch banking which characterizes the banking of Canada and many of the European countries, where banks are permitted to establish branches without limitation as to number or location.

The advantages claimed for independent banking are that it prevents the development of centralized control, and the concentration of banking power in the hands of a few individuals. It also permits sounder banking operations, especially in providing credit, since each banking unit is in closer contact with the local situation which is more likely to be understood by resident managers than by officials operating from a central office. (See Branch Banking.)

### Independent Treasury System

A system established in 1846 under which Government funds were taken out of the

banks and placed in the Treasury and sub-Treasuries. Between 1833, the date of the expiration of the charter of the Second Bank of the United States, and 1846, Government funds were maintained in state chartered banks exclusively. It was largely due to the charge of favoritism in the selection of state banks as depositories that the Independent Treasury System was adopted. Prior to 1833, Government funds were kept in the First and Second banks of the United States. (See Bank of the United States.)

In the period from 1846 to 1863 Government funds were kept exclusively in the Treasury and sub-treasuries, no banks being used as depositories of Government funds until after the National Banking System was established in 1863. Since the establishment of this system, National banks have to some extent served as Government depositories, thereby supplementing the treasuries as custodians of Government funds. With the establishment of the Federal Reserve System, the Federal Reserve banks are intended to serve as the chief depositories for Government funds, although member banks are still eligible for this purpose and large amounts are still kept on deposit with them.

The disadvantage of the independent Treasury system is that it is likely to disturb the money market by irregular deposits and withdrawals of money. While some of the governmental receipts from taxation are regular, a large portion, including income taxes, are quarterly. Withdrawals, moreover, are apt to be exceedingly irregular. If irregular deposits and withdrawals happen to occur when money is tight—especially at the crop moving period, the result is likely to be harmful. On the other hand, the Independent Treasury System can be of aid in time of a crisis or panic by the deposit of surplus Government funds in the banks, thus providing a larger central reservoir. Sub-treasuries were abandoned in 1921, their functions being taken over by the Federal Reserve banks. (See Depository, Sub-Treasury, Treasury Department, Treasury Statement.)

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#### Indeterminate Bonds

Bonds which have no fixed maturity date but which are callable at the option of the issuer usually after a specified date. (See Perpetual Bonds.)

#### Index-Numbers

Numbers which are representative or typical of the movement of prices of a single commodity or group of commodities (or wages, securities, exports, or other variable) or of the average prices prevailing during a given period, taken as a base with which to compare the price of these commodities (or other variables) at later dates.

The following is a definition of an index-number of wholesale commodity prices. "An index-number of any given article at any given date is the percentage which the price of that article at that date is of the price of the same article at a date or period which has been selected as base or standard. The method of computing index-numbers may be illustrated as follows. The average price of each commodity for the year 1913 is considered as 100. Then every month the prices of the various commodities are turned into relatives on that scale. Thus if wheat sold in 1913 at 1 a bushel and in May, 1918, at \$2.26 a bushel, the relative price of wheat is then 226. If, on the other hand, the price of any commodity should drop from 50 cents to 40 cents, the relative price would be 80. To ascertain the change that has occurred from month to month in the general level of prices it is only necessary to strike an average of those prices."\*

An index-number may be (1) an average of relative prices or average percentages of change in prices; (2) a sum in dollars and cents showing changes in the aggregate cost of certain definite quantities of certain commodities, *e. g.*, Bradstreet's index-number of wholesale prices; and (3) relative figures made from a series of the second type.

Most index-numbers are general series, and while the majority of them are prepared to show changes in wholesale prices, they may also be constructed to show (1) the change in the value of money; (2) rise or fall in the cost of living; (3) alternations of periods of prosperity and depression; (4) the change in the purchasing power of the dollar; (5) the change in wage level, in export and import trade, bank clearings, bank deposits, etc.

The purpose of index-numbers of wholesale prices is to show the variation or trend in the price level. There are three general types of such index-numbers, the continuous index-number, *e. g.*, "Dun's" and "Bradstreet's," the chain index (not frequently used), and the base index. Preference seems to be for the first which shows the

\* H. G. Moulton: *Financial Organization of Society*, p. 22.



average rise or fall of prices compared with the next or any preceding date, *e. g.*, week, month, or year. In the base index comparison is made with the average of prices for a fixed base period, *e. g.*, 1890-1899, that used in the Bureau of Labor Statistics index-number. Base index-numbers become less significant the longer they are maintained.

"Making an index number involves several distinct operations: (1) defining the purpose for which the final results are to be used; (2) deciding the number and kinds of commodities to be included; (3) determining whether these commodities shall be weighted according to their relative importance; (4) collecting the actual prices of the commodities chosen, and, in case a weighted series is to be made, collecting also data regarding their relative importance; (5) deciding whether to measure the average variations of prices or the variations of a sum of actual prices; (6) in case average variations are to be measured, choosing the base upon which relative prices shall be computed; and (7) settling upon the form of average to be struck.

"At each one of these successive steps choice must be made among alternatives that range in number from two to thousands. The possible combinations among the alternatives chosen are indefinitely numerous. Hence there is no assignable limit to the possible varieties of index-numbers, and in practice no two of the known series are exactly alike in construction."\*

There are seven continuous index-numbers of wholesale prices prepared and published in the United States. The principal facts regarding these index-numbers are presented in the table below:

In addition to the continuous index-num-

bers prepared in the United States, a number of series limited to a certain period have been prepared for special purposes by separate investigators. The War Industries Board made an index-series for the war period (1913-1918), which embraced 1,366 commodities, divided in 7 groups. It was based upon the first normal pre-war year, 1913. The Food Administration prepared an index series of 26 food products using the years 1911-1913 as a base, to cover the period 1911-1918. The Senate Finance Committee constructed an index-series based upon 223 commodities after 1860 and 85 commodities before that date, covering the period 1840-1891, and using the year 1840 as a base.

Index-numbers are also prepared in most of the leading foreign countries, and it is surprising to note the synchronization and similarity in the degree of change that occurs in the trends of the various nations. England has 5 important index-numbers (London Economist, 44 commodities; English Board of Trade, 150 commodities; Sauerbeck, 45 commodities; London Statist, 45 commodities; and London Times). France has the index-number of the Bureau of General Statistics, 45 commodities; Canada, Department of Labor, 272 commodities; Japan, Oriental Economist (Tokyo), and Bank of Japan (Tokyo), 56 commodities; Australia, Commonwealth Bureau of Census and Statistics, 92 commodities; Germany, Frankfurter Zeitung; Italy, Riccardo Bachi, 40 commodities; Sweden, Svensk Handelstidning, 47 commodities; Norway, Christiania Okonomist Revue.

The table on the following page shows the rise and fall of wholesale prices in the United States since 1900 according to Bradstreet's index-number:

Name of Index-Number	Year Begun	Base	Number of Groups	Number of Commodities	Where Published
Bureau of Labor Statistics	1902	1890-1899 100	9*	404	Monthly Labor Review
Bradstreet's	1895	None	13	96	Bradstreet's
Dun's	1901	None	7	300	Dun's Review
Federal Reserve Board	1918	1913	6	90	Federal Reserve Bulletin
Federal Reserve Bank, New York	1913	1913	1	20	Monthly Review Federal Reserve Bank, N. Y.
Annalist (food only)	1913	1890-1899 100	1	25	The Annalist
Thomas Gibson (food only)	1910	1890-1899	1	22†	Gibson Weekly Market Letter

\* Farm products, food, cloths and clothing, fuel and light, metals and metal products, building materials, chemicals and drugs, house furnishing goods.

† Fifty commodities before 1913.

#### PRICE INDEX—NUMBERS IN THE UNITED STATES

\* W. C. Mitchell: The Making and Using of Index-Numbers, in Bulletin of the United States Bureau of Labor Statistics, No. 173.

See also: Index-Numbers of Wholesale Prices

in the United States and Foreign Countries, in bulletin No. 284. National Industrial Conference Board also issues a monthly cost of living index number.

*1900.....	7.8839	June 1920.....	19.8752
1901.....	7.5746	July 1920.....	19.3528
1902.....	7.8759	Aug. 1920.....	18.8273
1903.....	7.9364	Sept. 1920.....	17.9746
1904.....	7.9187	Oct. 1920.....	16.9094
1905.....	8.0986	Nov. 1920.....	15.6750
1906.....	8.4176	Dec. 1920.....	13.6263
1907.....	8.9045	Jan. 1921.....	12.6631
1908.....	8.0096	Feb. 1921.....	12.3689
1909.....	8.5153	Mar. 1921.....	11.8650
1910.....	8.9881	Apr. 1921.....	11.3749
1911.....	8.7129	May. 1921.....	10.8208
1912.....	9.1867	June 1921.....	10.6169
Jan. 1913.....	9.4935	July 1921.....	10.7284
Apr. 1913.....	9.2976	Aug. 1921.....	11.0576
July 1913.....	8.9522	Sept. 1921.....	11.0868
Oct. 1913.....	9.1526	Oct. 1921.....	11.1879
Jan. 1914.....	8.8857	Nov. 1921.....	11.3514
Apr. 1914.....	8.7562	Dec. 1921.....	11.3127
July 1914.....	8.6566	Jan. 1922.....	11.3725
Oct. 1914.....	9.2416	Feb. 1922.....	11.4190
Jan. 1915.....	9.1431	Mar. 1922.....	11.6001
Apr. 1915.....	9.7753	Apr. 1922.....	11.5317
July 1915.....	9.8698	May 1922.....	11.7044
Oct. 1915.....	9.9774	June 1922.....	11.9039
Jan. 1916.....	10.9163	July 1922.....	12.1069
Apr. 1916.....	11.7598	Aug. 1922.....	12.07
July 1916.....	11.5294	Sept. 1922.....	12.08
Oct. 1916.....	12.0399	Oct. 1922.....	12.50
Jan. 1917.....	13.7277	Nov. 1922.....	13.35
Apr. 1917.....	14.5769	Dec. 1922.....	13.78
July 1917.....	16.0680	Jan. 1923.....	13.70
Oct. 1917.....	16.9135		
Jan. 1918.....	17.9436		
Apr. 1918.....	18.4431		
July 1918.....	19.1624		
Oct. 1918.....	18.9942		
Jan. 1919.....	18.5348		
Apr. 1919.....	17.2795		
July 1919.....	18.8964		
Oct. 1919.....	19.5215		
Jan. 1920.....	20.3638		
Feb. 1920.....	20.8690		

\* Average for years 1900-1912.

In addition to the index-numbers embracing *groups* of commodities at wholesale, a number of indexes or relatives for comparing trends of *single* commodities are available chiefly in various trade publications.

The following trade publications issue index-numbers or relatives, showing the trend of single specific commodities or groups of grades of specific commodities :

PUBLICATION.	TYPE OF INDEX.	COMMODITY.
Iron Age	Price Composite	Finished Steel Products
Iron Age	Price Composite	Foundry and Basic Pig Iron
Steel and Metal Digest	Weighted Average	Seven Steel Products
Steel and Metal Digest	Weighted Average	Seven Pig Irons
Iron Trade Review	Price Composite	Steel Products
Coal Age	Relative	Fourteen Bituminous Coals
Lumber	Price Composite	Softwoods
Lumber	Price Composite	Hardwoods
Bradstreet's	Index Number	Thirty-one Foods
Federal Reserve Bulletin	Relative	Ocean Freight Rates

Mar. 1920.....	20.7950
Apr. 1920.....	20.7124
May 1920.....	20.7341

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### India Council Bills (Drafts)

The India Council is virtually the London financial office of the Government of India. Having large sums of Indian currency due it, the Council issues and sells these bills as a means of converting rupees, the standard money of India, into sterling, to the highest bidders on Wednesday of each week. Council bills are payable at central points in India in rupees and are purchased by concerns which desire to make remittances to India, which may be made by mail or telegraphic transfer.

Council bills are now offered in the New York market (through the Bank of Montreal) by telegraphic transfers on India. The India Council established this practice in August, 1919.

### Indicated Yield

See Crop Reports.

### Indirect Exchange

See Arbitrage, Arbitration of Exchange.

### Individual Banker

A private bank; an individual partnership or unincorporated association engaged in the banking business and subject to the jurisdiction of the State Banking Department, as distinguished from an incorporated bank.

### Individual Bank Return

See Bank Return.

### Individual Deposits

Funds deposited with a bank by individuals, partnerships, firms, and business corporations (other than banking corporations), as distinguished from deposits of banks, trust companies, and other moneyed corporations. This distinction is made in order to furnish information upon bank deposits to the various banking jurisdictions.

### Individual Trusts

See Trusts.

### Indorse

To place one's signature on the back of a document as evidence of its legal transfer and passing of title, such as on a check, note, stock certificate, bill of exchange, bill of lading, etc. (See Indorsement.)

### Indorsed Bonds

This term has two meanings:

(1) Bonds indorsed by a person or corporation other than the maker whose direct obligation they are. Indorsed bonds usually arise out of a consolidation in which the parent corporation purchases the bonds of its subsidiary. In order to strengthen their value marketwise, or as collateral for loans, the parent company may indorse them. A guaranty is implied in an indorsed bond, the indorser becoming liable in case of non-payment, just as in the case of an indorser of a note. The terms of the guaranty are written upon the bonds themselves, or upon a separate document. The underlying security is not changed by the indorsement.

(2) Bonds with writing or signatures extraneous to the text written thereon. By a rule of the New York Stock Exchange bonds with extraneous markings in ink do not constitute a good delivery. The rule states—"Coupon bonds issued to bearer having an indorsement upon them, not properly pertaining to them as a security, must be sold specifically as indorsed bonds and are not a delivery except as indorsed bonds."

### Indorsee

One to whom a negotiable instrument, *e. g.*, check, bill of exchange, or note, or other instrument the title of which can be transferred to another, is indorsed or assigned. In the indorsement "Pay to the order of A. B. See, (signed) D. E. Eff," A. B. See is the indorsee. (See Indorse, Indorsement.)

### Indorsement

The writing on the back of a negotiable or other instrument. The indorsement of a check, bill of exchange, or note, consists of writing signed by the payee or *Holder in Due Course* (q. v.), or simply the signature alone, and is the means by which the title is transferred to another person. All instruments which are payable to order, are negotiated only by indorsement. Negotiation consists of transferring the title of an instrument from one person to another so that the transferee becomes the legal holder. If the instrument is payable to bearer, it is negotiated by delivery; if payable to order, it is negotiated by the indorsement of the holder completed by delivery.

An indorsement must be written on the instrument itself or upon a paper attached thereto, sometimes called an *Allonge* (q. v.). An indorsement must be an indorsement for the full amount of the instrument, but where

the instrument has been paid in part, it may be indorsed as to the remainder. There is no limit to the number of indorsements that may be made on a negotiable instrument, except where negotiability has been destroyed.

There are six generally recognized kinds of indorsements:

(1) *Indorsement in Blank*, also known as general indorsement. If an instrument is payable to A. B. See, the indorsement in blank is his simple signature without additional writing, *i. e.*, "A. B. See." It specifies no particular indorsee, and thereafter is payable to bearer, and may be negotiated by delivery. It is a common form of indorsement but has the objection that if lost or stolen, it may come into the possession of a third party who does not have good title, and being payable to bearer, may be paid to him. The holder may convert an indorsement in blank into a special indorsement.

(2) *Special Indorsement*, also known as direct indorsement, and indorsement in full. This indorsement specifies the person to whom or to whose order the instrument is payable, and the indorsement of such indorsee is necessary to the further negotiation of the instrument. If an instrument is payable to A. B. See, the special indorsement is "Pay to Adam Smith, A. B. See" or "Pay to the order of Adam Smith, A. B. See."

This is the most proper form of indorsement and offers the owner the greatest protection both from a legal and practical standpoint. Without Adam Smith's indorsement it cannot be negotiated except by forgery.

(3) *Qualified Indorsement*. This is an infrequent form of indorsement in which the indorser is merely an assignor, *i. e.*, guarantees that he is a holder in due course, but declines to assume any financial responsibility. It is made by adding the words "Without recourse" or words of similar import to the indorser's signature. Such an indorsement does not impair the negotiable character of the instrument.

(4) *Conditional Indorsement*. This is an infrequent form of indorsement in which the indorser imposes some condition upon the transferee, *e. g.*, "Pay Adam Smith upon the satisfactory performance of his contract." Another form of conditional indorsement, is known as the third-party indorsement *e. g.*, "Pay to the First National Bank for the account of Adam Smith, (signed) A. B. See," which indorsement is restricted in trust. Where an indorsement is conditional, a party required to pay the instrument may disregard the condition and make pay-

ment to the indorsee or his transferee, whether the condition has been fulfilled or not; but any person to whom an instrument so indorsed is negotiated will hold the same, or the proceeds thereof, subject to the rights of the person indorsing conditionally.

(5) *Restrictive Indorsement*. This indorsement destroys the negotiability of the instrument, *e. g.*, "Pay to Adam Smith, (signed) A. B. See."

(6) *Absolute Indorsement*. This indorsement binds the indorser to pay only through the failure of prior parties to do so, and upon due notice to him.

(See Negotiable Instrument Law—Art. 4.)

### Indorsement in Blank

See Indorsement.

### Indorsement in Full

See Indorsement.

### Indorser

One who transfers his title to an instrument to another party by indorsement. (See Indorsee, Indorsement).

### Industrial Bonds

Bonds issued by industrial corporations (excluding mining and real estate bonds), as distinguished from Government, municipal, public utility, railroad bonds, etc. Industrial bonds are essentially a modern type and were practically unknown prior to 1900, when the great industrial corporations, requiring large sums of capital, began to develop. Most industrial corporations still have no bonded debt, but are capitalized through preferred and common stock issues, commercial paper, and seasonal bank loans. A huge volume of industrial bonds were issued during the World War and following readjustment period, however, due to unprecedented growth of American industry and the necessity of raising additional capital funds. Industrial bonds are usually secured by a first mortgage upon a part or all of the plant of the issuing corporation although there are a few instances of collateral trust and unsecured issues.

Industrial bands as a class are not considered as high grade investments as the other classes, although there are many individual issues that command a standing superior to issues in the other classes enumerated. Industrial bonds are considered more speculative than the other classes, because (1) they are unseasoned, *i. e.*, have



not been on the market as long as the others, and the record of insolvencies and defaults is unfavorable in comparison with the other classes; (2) lack of standardization due to the great diversity of industrial undertakings and the lack of uniformity in methods of operation, accounting, statistics, etc., each concern being a case by itself; (3) the dependence for success upon the high quality of management and personnel; and (4) instability of sales and earnings, which are subject to wide fluctuations, and in times of depression may not be sufficient to cover interest charges.

Industrial bonds naturally yield a higher rate of interest than do bonds of the other classes.

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### Industrial Collateral

One of the two classes of stock exchange collateral. Brokers who borrow in the call money market may present to the lending bank either industrial or regular (also called mixed) collateral. Industrial collateral consists entirely of stocks of industrial corporations actively traded on the New York Stock Exchange. (See Call Money Market, Collateral.)

### Industrials

See Industrial Stocks.

### Industrial Stocks

Stocks of industrial and mercantile corporations as distinguished from railroad, public utility, bank and trust company, and insurance company stocks. They are more or less vaguely sub-divided by financial writers into the following groups: steel, equipment, electrical machinery, agricultural (farm machinery and fertilizer), food, tobacco, clothing, leather, chemical, coal, mining and copper, oil, motor and accessory, tire, rubber, ship and shipping, mail order and chain store, and specialty (stocks of phonograph, moving picture, and other miscellaneous companies). In its Market Index, the Standard Statistics Company (New York) classifies industrial stocks in the following groups: Automobiles, Automobile Accessories, Chemicals, Coal, Copper, Equipment, Electrical Machinery, Leather, Express, Food, Farm Machinery, Mail Order Houses and Chain Stores, Mining (Miscel-

laneous), Paper, Petroleum, Rubber and Tires, Steel, Sugar, Shipping, Textiles, Theatres, and Tobacco. The chief characteristics of industrial stocks are the great variety in the lines of business they represent, lack of uniformity in methods of operation, accounting, and managerial skill, lack of stability in sales and production, and wide variations in earnings as result of alternate periods of prosperity and depression.

Industrial stocks are considered to be the most speculative of all types of securities. The enumeration above of their chief characteristics reveals some of the speculative elements necessarily inherent in their very nature. There is, however, a wide divergence in the stability of the various groups of industrial stocks and among individual issues in the same group. Companies engaged in the manufacture and sale of basic commodities, *e. g.*, steel, equipment, food, clothing, etc., are obviously more stable than those engaged in the production of specialties, the market for which is less broad. Preferred stocks, moreover, often enjoy a fairly high investment rating, especially among companies which are conservatively financed. Common stocks which represent the last claim upon the assets and earnings of a corporation, are subject to considerable fluctuation in market price even among the best established and managed corporations.

In the original financing of many industrial corporations, the property was purchased from proceeds of sale of preferred stock, common stock being given as a bonus and representing a fictitious value. Many of these companies have since built up substantial property values against their common as well as preferred stock by reinvestment of a portion of annual earnings in fixed property. Most of the development of industrial corporations in fact, has been accomplished in this way. The Standard Oil Company is said never to have paid out more than one-half of its earnings, the remainder being used for expansion purposes.

In determining the value of industrial stocks as speculative investments the following points should be considered: nature and degree of stability, skill and responsibility of the management, amount of funded and floating debt, amount of prior charges, actual (not book) value of net assets per share, net current assets per share, current earnings per share, prospective earnings, average earnings over past five years per share, and current dividend rate. (See Speculation).

## Inflation

Among business men, investors, and speculators, inflation denotes the condition existing when prices of commodities and securities are abnormally high. Thus inflated securities are those selling at prices in excess of values represented by equities and normal earning power.

Among economists, inflation is an abbreviated form of *Inflation of Credit*. This is a general business condition represented by undue and unwholesome business activity stimulated by an excessive extension of credit beyond the limits of safety. Briefly, inflation is recognized by increasing bank loans and deposits, decreasing bank reserves, advancing prices and wages, and the increasing difficulty which merchants experience in making collections and paying debts. If not checked, inflation inevitably leads to a crisis, and perhaps to a panic. It is usually followed by a period of depression. (See Business Cycle).

## Ingot

A bar of metal cast from a mold, such as gold, copper, tin, lead, zinc, etc.

## Inheritance

The property of a person which passes upon his death to the *Next-of-Kin* (q. v.) in any way except through *Devise* (q. v.). (See Bequest, Legacy, Testator, Will.)

## Inheritance Tax

A tax imposed by practically every state in the United States and by the Federal Government upon inherited property. It is collected but once—at the time of the transfer of the inheritance to the beneficiaries—being unlike other taxes, which are collected periodically.

Inheritance taxes are of two kinds, direct and collateral. The first applies to property directly descending to the next of kin, *e. g.*, son, daughter, father, mother. The second applies to all other relationships. The administration and rate of the tax differs among the different jurisdictions. Administrators and executives upon assuming their duties should inform themselves on the subject, or seek competent legal advice. Usually the rate of inheritance tax is progressive, the percentage increasing with the size of the estate or individual shares, and with the remoteness of kinship. In England inheritance taxes are called "death duties."

## Inland Bill

As defined by the Negotiable Instruments Law, a bill of exchange which is, or on its face purports to be, both drawn and payable within the state. Any other bill is a foreign bill. The term is frequently used, however, as synonymous with domestic bill. A foreign bill must be protested in case of dishonor, but an inland bill need not.

## Inscribed Stock

Stocks or bonds which in English practice exclusively, are registered in the name of the holder in the books of the issuing organization and for which no actual certificates (in the American sense) are issued. The owner of inscribed stocks, besides being registered on the company's books as owning a certain number of shares, is given a memorandum of ownership. This memorandum does not prove title nor constitute ownership, and is non-negotiable. It cannot be sold or assigned as a stock certificate in America. In order to transfer inscribed stock, the holder must personally attend to the transfer by presenting his memorandum of ownership and signing the inscribed stock register. The original certificate of ownership is then destroyed and a new one issued in its place in the name of the transferee or buyer.

Inscribed stock differs from registered stock in that in the former, no actual certificates of ownership are issued, the memorandum of ownership not constituting proof of title.

As a rule, only British Government or municipal loans are issued as inscribed stock, British *Consols* (q. v.) being an example. Most of the securities upon the London Stock Exchange are in "registered" rather than "inscribed" form. Dividends or interest upon inscribed stock are remitted by check.

## Insider

An expression to denote a person who, because of his employment or business connections, has intimate knowledge of the financial affairs of a concern before such information is published and is available to the public. He is therefore in a peculiarly advantageous position for capitalizing this information by speculating, *i. e.*, making commitments in the securities of the concern in accordance with this knowledge, in advance of the public.

## Insolvency

Failure in business; the condition of an individual or concern unable to pay its debts.



the liabilities exceeding his assets. As defined by the National Bankruptcy Act (Sec. 1) a person is "deemed insolvent . . . . . whenever the aggregate of his property exclusive of any property which he may have conveyed, transferred, concealed, or removed, or permitted to be concealed or removed, with intent to defraud, hinder, or delay his creditors, shall not, at a fair valuation, be sufficient in amount to pay his debts."

Insolvency is to be distinguished from bankruptcy in that the former is a business or accounting condition, whereas the latter is a legal condition. In bankruptcy the insolvent person has entered court voluntarily or involuntarily to be adjudged a bankrupt in order that the business may be liquidated to satisfy the creditors' claims, any balance thereafter belonging to the owner. (See Bankruptcy, Failures.)

### Insolvent

An individual or concern that is unable fully to meet its debts. (See Insolvency.)

### Instalment

A part payment on the purchase price of an article, which is sold with the understanding that the remaining payments shall be due on specified future dates. The word is especially used in connection with the purchase of securities where a certain percentage is paid down, the balance being payable in a number of payments following at stipulated intervals, until the full amount is paid. Such payments are called instalments.

The term is also applied to a part payment on a debt, *e. g.*, a note, or income tax assessment.

### Instalment Bonds

See Serial Bonds.

### Instrument

A general term to denote any kind of document in writing by which some right is conferred or contract is expressed. Practically all documents used in finance, *e. g.*, check, draft, note, bond, coupon, stock certificate, bill of lading, trust deed, trust receipt, etc., are instruments. (See Credit Instruments, Negotiable Instruments.)

### Insufficient Funds

A term used in banking practice in returning checks not payable because the drawer has insufficient funds. When a

check is presented for collection through the clearing house or otherwise for which the drawer has insufficient funds to meet it, the drawee bank returns it to the presenting bank for credit (by messenger or otherwise), with a memorandum slip attached on which the words "Insufficient Funds," are printed.

Where doubt exists, the paying teller examines the account of the drawer to see that sufficient funds are on hand, when a check is presented for payment.

### Insular Bonds

Bonds issued by, and a direct obligation of any of the insular possessions of the United States. The United States has eight insular or territorial possessions, Alaska, Philippine Islands, Hawaii, Porto Rico, Guam, American Samoa, Virgin Islands, and the Panama Canal Zone. Of these, Porto Rico, Philippine Islands and Hawaii are the only ones which have issued bonded obligations, known either as insular bonds or territorial bonds.

None of the insular bonds mentioned are direct obligations of the United States. All of them have been issued under the authority of Congress, however, and in the case of the Philippine Islands and Porto Rico, by direction of the Secretary of War. The Hawaiian bonds have been issued with the approval of the President of the United States. All the issues of these possessions are as tax exempt throughout the United States as the Liberty 3½s or Victory 3¾s. All of them are eligible for investment by commercial banks and trust companies and to secure Government deposits. Hawaiian bonds are legal for savings banks and trust funds in New York.

The Philippine Islands and Porto Rico issues are payable, principal and interest, at the United States Treasury at Washington. The Attorney General of the United States has in each instance supplied a legal opinion on these issues. In approving the issue of the Philippine Islands, 5½s due 1941, he wrote in part as follows:

"This issue and sale of bonds is authorized explicitly by the National Power, and while in the strict and legal sense the faith of the United States of America is not pledged as a guaranty for the payment of the loan or for the due use of the proceeds or the observance of the sinking fund requirements, the entire transaction is to be negotiated under the auspices of the United States of America and by its recognition and aid. There can be no doubt, therefore, that the National Power will take the necessary steps

in all contingencies to protect the purchasers in good faith of these securities."

There are nearly fifty issues of insular bonds outstanding, many of which are available in both coupon and registered form.

## Insurance

Elimination of or protection against risks regular enough to become amenable to actuarial calculation; avoidance or reduction of losses occurring through various misfortunes, *e. g.*, death, fire, accident, tornado, shipwreck, etc., through the co-operative sharing of such losses, *i. e.*, through contributions made to a single fund by a large number of persons for the purpose of indemnifying losses sustained by such of the group as may be affected.

Whether insurance is provided by established "old line" companies which compute risks scientifically through the aid of experience tables, or by mutual associations, or by groups of individuals, its function is always to ease the bearing of calculable risks. The essential principle of insurance is co-operation or pooling of losses that may occur to a large group of persons, but which actually through the law of averages, will happen only to a small number in such group. For instance, it may be known that three out of every 1,000 houses in a given locality, will burn down each year; but it is not known which of those three houses will be destroyed. The loss to the owners of the three houses would be crushing, but if distributed among a thousand owners, it becomes entirely bearable.

Insurance does not prevent losses; rather it substitutes a small certain loss for a possible or contingent large loss. The insured is indemnified for the amount of the loss, or for the insured amount, or for the face of his policy, in return for payment of periodic premiums. It is thus the reverse of gambling, which involves the assumption of heavy and unnecessary risks. Insurance seeks to eliminate chance while gambling seeks to create chance. Thus, paying two dollars a year as protection against the contingent loss by fire of a house worth \$3,000 is insurance; not doing so, by assuming the risk of loss of \$3,000, is gambling.

The principal kinds of insurance are the following: life, fire, marine, fidelity, health, sickness, liability, accident, casualty, automobile, grain elevator, credit, war risk, burglary, robbery, plate-glass, boiler explosion, fly-wheel, baggage, parcels post, sprinkler leakage, lumber, household furniture, strike, lumber, windstorm, hail, cyclone,

tornado, rain, forgery, collision, ship hull, rent, use and occupancy, workmen's compensation, etc.

Fire insurance is written by stock companies, mutual companies, or by associations of individual insurers, *e. g.*, Lloyd's in London.

Life insurance companies are also of stock and mutual form, and are usually classified according to the plan of premium payments into (1) "old line" level premium, (2) assessment (mutual and fraternal companies), and (3) stipulated premium. The "old line" companies are the most satisfactory since premiums, reserves, and surplus are computed scientifically in accordance with the American mortality experience table, an assumed rate of earnings on investments, and a fixed rate of expenses. They are regulated, moreover, especially in the matter of investment media, by the various state insurance departments.

Classified by method of premium payment, "old line" life insurance is usually in three forms: (1) ordinary life plan, in which premium payments at a fixed sum continue throughout life (or until the policy is paid up); (2) limited payment plan, in which the number of premiums is limited to ten, fifteen, twenty or more years when the policy becomes paid up; and (3) term plan, in which insurance is provided for a term of years and is renewable for another term only at an advanced rate depending upon the age of the insured. The latter carries the lowest premium charge.

Endowment is a combination of insurance and compulsory savings in which the policy matures in a certain number of years after it is issued, so that if the policy-holder survives, he receives the face of the policy at that time. Deducting the segregated charge for insurance *per se*, the rate of interest returned on an endowment policy is guaranteed by most companies at 3 or 3½ per cent., but actually due to participation in surplus, the return is often as high as 4½ per cent. or slightly over. It will thus be seen that an endowment policy is a form of savings which compares favorably with a savings bank account with the compulsory feature added.

Practically all insurance companies provide for a participation in earnings by all policy-holders except those insured under the term plan. In this way the cost of insurance to the insured is practically reduced. If the premium payments of a company plus its income on investments exceed death claims and expenses, a surplus arises. This may be due to the circumstance that the average in-



sured live longer than was assumed, because the investment return is temporarily or permanently higher than postulated, or because expenses are kept down below the precalculated rate. Out of such surplus, dividends are paid to policy-holders based upon the amount of the annual premium and the kind of insurance. Such dividends may usually be taken in a number of alternative ways: (1) cash payment, (2) applied in reduction of premium, (3) to purchase paid up insurance additions payable at the maturity of the policy, (4) to accelerate the payment of the total premiums due, *i. e.*, to hasten the time when the policy will be considered as paid up, or (5) credit to a premium deposit fund.

When a policy matures there are usually several optional methods of settlement: (1) payment in cash in one sum, (2) payment of interest (guaranteed to be at least  $3\frac{1}{2}$  per cent. or some other per cent., but usually actually more) on the amount of the policy, at the end of each year during the lifetime of the payee, and the payment of the principal sum with any accrued and unpaid interest thereon, on the death of the payee, to his or her executors, administrators or assigns, (3) payment of a specified number of equal annual instalments, whether the payee lives or dies (the first instalment payable immediately), the amount of each instalment to be in conformity with the company's prepared tables, (4) payment of equal annual instalments (the first instalment payable immediately), for ten or twenty years certain, and as many years thereafter as the payee shall live, such selected ten or twenty instalments certain being paid whether the payee lives or dies, the amount of each instalment to be in conformity with the company's prepared tables, and (5) payment of an annuity during the lifetime of the annuitant (the first payment payable immediately), the amount of each payment to be in conformity with the company's prepared tables.

(See Actuary, Endowment Policy, Liability Insurance.)

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### Interchangeable Bonds

First read *Coupon Bonds and Registered Bonds*.

Bonds which may be converted from coupon or registered form (or vice versa) and back again to coupon (or registered) form. Most bonds which have once been converted from coupon to registered form cannot be changed back to coupon form. Registered bonds do not enjoy as ready a market or command as high a price as coupon bonds, and for this reason, the option of conversion is valuable.

### Interest

The "price of money"; rental payment upon money; a charge made to the borrower by the lender for the use of money. "The excess payment made when the borrowed dollar is returned is called interest."\* It is expressed in terms of a percentage upon the principal. Thus, if \$6.00 is paid for the annual use of \$100, the rate is 6 per cent. Interest is often payable at shorter intervals, but rarely at longer. Interest on call loans, for instance, is usually payable monthly; on commercial loans quarterly; on mortgages semi-annually, and upon bonds semi-annually or quarterly.

Simple interest is that computed upon the principal without reference to the interest period on the assumption that  $1/365$  of a year's interest accrues *each day*. It is equivalent to compounding at the day of calculation and if the interest period is less than one year, the nominal simple interest rate is greater than the true interest rate compounded annually. Practically, however, this difference is disregarded. Compound interest is computed upon the principal plus the interest which has accrued and payable upon the agreed interest date. Interest may be compounded monthly, quarterly, semi-annually or annually.

When interest is compounded more frequently than once a year, it produces an "effective" rate in excess of the nominal or quoted rate. For example, if the nominal interest rate on a \$1,000 bond is 4 per cent., and payable annually, the effective interest rate is the same; if payable semi-annually it is 4.04 per cent.; if payable quarterly it is 4.0604 per cent.; if payable monthly it is 4.0742 per cent.; if payable daily it is 4.0811

\*M. A. Mackenzie: *Interest and Bond Values*, p. 5.

per cent. The interest on a \$1,000 4 per cent. bond compounded annually is therefore \$40; \$40.40 if compounded semi-annually; \$40.604 if compounded quarterly; \$40.742 if compounded monthly, and \$40.811 if compounded daily. The maximum advantage achieved by daily compounding is only \$0.811 a year on a \$1,000 4 per cent. bond. Practically half this advantage is obtained by compounding annually. (See Deposit Interest Rate, Discount, Interest Balance, Interest Rates, Interest Tables, Legal Rate of Interest, Usury.)

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#### Interest Accrued

See Accrued Interest.

#### Interest Added

See Accrued Interest.

#### Interest Balance

A term used in connection with interest paid by a commercial bank or trust company upon commercial (demand) deposits, *i. e.*, deposits subject to check. When an account is opened, certain arrangements are agreed upon under which the account is carried. The depositor usually is required to keep a minimum balance sufficient to make the account profitable to the bank. This minimum varies according to the size and policy of the bank, the size of the community, and other local factors. If the account is a borrowing account, an average balance based upon the amount borrowed usually must be maintained, ranging from 10 to 20 per cent.

Commercial banks pay interest on daily balances over a certain prescribed minimum and at varying rates according to the size and activity of an account, and according to the loaning rate of interest. The terms are so different among various institutions and localities that no general rules can be laid down. Banks which are members of clearing house associations are usually bound to a certain maximum *Deposit Interest Rate* (q. v.).

The interest balance of an account is the amount upon which interest for the day is computed, and does not necessarily agree with the *total credit balance*. The reason for this is clear when it is considered that many deposits are in the form of checks or

money orders drawn upon out-of-town banks and are not available as cash until collected. The rule is that interest cannot be earned on any items deposited until they become available as cash. When exchange is charged upon out-of-town items, they should enter the interest balance immediately because the exchange charge is calculated to compensate for the loss of interest during the process of collection. The number of days which out-of-town items are held out of the interest balance depends upon the time taken for collection as shown by the schedule of availability dates published by the Federal Reserve banks. Certain clerks are assigned to the task of marking deposit slips and indicating the number of days each item should be held from the interest balance so that the ledger clerk may make the proper entry in the ledger.

#### Interest-Bearing Securities

Bonds, notes, and mortgages which yield interest.

#### Interest Rates

See Deposit Interest Rate, Discount, Legal Rate of Interest, Money Market, Rediscount Rate.

#### Interest Tables

Tables constructed to show the amount of interest which will accrue on a given convenient (round-number) sum, *e. g.*, \$1, \$100, or \$1,000, at different rates of interest for various intervals of time, whereby separate and independent computations for each interest transaction are rendered unnecessary.

Interest tables are prepared in many different forms, with varying degrees of detail and refinement in carrying out decimal places and time intervals, and to meet a wide divergence of uses. The following list, illustrated subsequently, comprises the more important types of interest tables:

I. *Simple interest*. Simple interest computed on a given principal, *e. g.*, \$1,000, at different rates for various time intervals. See Table I below.

II. *Discount or present value*. Present value (or worth) of a given sum, *e. g.*, \$1, maturing at different time intervals at various rates of interest. See Table II below.

III. *Compound interest*. The amount to which a given sum, *e. g.*, \$1, will accumulate at interest compounded at various rates for different time intervals. See Table III below.



Days	3½%	4%	4½%	4¾%	5%	5½%	5¾%	6%	6½%	7%	7¾%	8%
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1	0.1027	0.1096	0.1164	0.1233	0.1301	0.1370	0.1438	0.1507	0.1575	0.1644	0.1711	0.2055
2	0.2055	0.2192	0.2329	0.2466	0.2603	0.2740	0.2877	0.3014	0.3151	0.3288	0.3562	0.4110
3	0.3082	0.3288	0.3493	0.3699	0.3904	0.4110	0.4315	0.4521	0.4726	0.4932	0.5342	0.6164
4	0.4110	0.4384	0.4658	0.4932	0.5205	0.5479	0.5753	0.6027	0.6301	0.6575	0.7123	0.8219
5	0.5137	0.5479	0.5822	0.6164	0.6507	0.6849	0.7192	0.7534	0.7877	0.8219	0.8904	1.0274
6	0.6164	0.6575	0.6986	0.7397	0.7808	0.8219	0.8630	0.9041	0.9452	0.9863	1.0685	1.2329
7	0.7192	0.7671	0.8151	0.8630	0.9110	0.9589	1.0068	1.0548	1.1027	1.1507	1.2466	1.4384
8	0.8219	0.8767	0.9315	0.9863	1.0411	1.0959	1.1507	1.2055	1.2603	1.3151	1.4247	1.6438
9	0.9247	0.9837	1.0427	1.1016	1.1606	1.2195	1.2785	1.3374	1.3964	1.4553	1.6027	1.8931
10	1.0274	1.0959	1.1644	1.2329	1.3014	1.3699	1.4384	1.5068	1.5753	1.6438	1.7808	2.0548
11	1.1301	1.2055	1.2808	1.3562	1.4315	1.5068	1.5822	1.6575	1.7329	1.8082	1.9589	2.2603
12	1.2329	1.3151	1.3973	1.4795	1.5616	1.6438	1.7260	1.8082	1.8904	1.9726	2.1370	2.4658
13	1.3356	1.4247	1.5137	1.6027	1.6918	1.7808	1.8699	1.9589	2.0479	2.1370	2.3151	2.6712
14	1.4384	1.5342	1.6301	1.7260	1.8219	1.9178	2.0137	2.1096	2.2055	2.3014	2.4931	2.8767
15	1.5411	1.6438	1.7466	1.8493	1.9521	2.0548	2.1575	2.2603	2.3630	2.4658	2.6712	3.0822
16	1.6438	1.7534	1.8630	1.9726	2.0822	2.1918	2.3014	2.4110	2.5205	2.6301	2.8493	3.2877
17	1.7466	1.8630	1.9795	2.0959	2.2123	2.3288	2.4452	2.5616	2.6781	2.7945	3.0274	3.4931
18	1.8493	1.9726	2.0959	2.2192	2.3425	2.4658	2.5890	2.7123	2.8356	2.9589	3.2055	3.6986
19	1.9521	2.0822	2.2123	2.3425	2.4726	2.6027	2.7329	2.8630	2.9931	3.1233	3.3836	3.9041
20	2.0548	2.1918	2.3288	2.4658	2.6027	2.7397	2.8767	3.0137	3.1507	3.2877	3.5616	4.1096
21	2.1575	2.3014	2.4452	2.5890	2.7329	2.8767	3.0205	3.1644	3.3082	3.4521	3.7397	4.3151
22	2.2603	2.4110	2.5616	2.7123	2.8630	3.0137	3.1644	3.3151	3.4658	3.6164	3.9178	4.5205
23	2.3630	2.5205	2.6781	2.8356	2.9931	3.1507	3.3082	3.4658	3.6233	3.7808	4.0959	4.7260
24	2.4658	2.6301	2.7945	2.9589	3.1233	3.2877	3.4521	3.6164	3.7808	3.9452	4.2740	4.9315
25	2.5685	2.7397	2.9110	3.0822	3.2534	3.4247	3.5959	3.7671	3.9384	4.1096	4.4521	5.1370
26	2.6712	2.8493	3.0274	3.2055	3.3836	3.5616	3.7397	3.9178	4.0959	4.2740	4.6301	5.3425
27	2.7740	2.9589	3.1438	3.3288	3.5137	3.6986	3.8836	4.0685	4.2534	4.4384	4.8082	5.5479
28	2.8767	3.0685	3.2603	3.4521	3.6438	3.8356	4.0274	4.2192	4.4110	4.6027	4.9863	5.7534
29	2.9795	3.1781	3.3767	3.5753	3.7740	3.9726	4.1712	4.3699	4.5685	4.7671	5.1644	5.9589
30	3.0822	3.2877	3.4931	3.6986	3.9041	4.1096	4.3151	4.5205	4.7260	4.9315	5.3425	6.1644
31	3.1849	3.3973	3.6096	3.8219	4.0342	4.2466	4.4589	4.6712	4.8836	5.0959	5.5205	6.3699

TABLE I.—SINGLE INTEREST TABLE—31 DAYS TO THE MONTH

Courtesy of Financial Publishing Co.

YEARS.	3%	3½%	4%	4½%	5%	6%	YEARS.	3%	3½%	4%	4½%	5%	6%
1	0.97	0.96	0.96	0.95	0.95	0.94	26	17.87	16.89	15.98	15.14	14.37	13.00
2	1.91	1.89	1.88	1.87	1.85	1.83	27	18.32	17.28	16.32	15.45	14.64	13.21
3	2.82	2.80	2.77	2.74	2.72	2.67	28	18.79	17.66	16.66	15.74	14.89	13.40
4	3.71	3.67	3.62	3.58	3.54	3.46	29	19.18	18.03	16.98	16.02	15.14	13.69
5	4.57	4.51	4.45	4.39	4.32	4.21	30	19.60	18.39	17.29	16.28	15.37	13.76
6	5.41	5.32	5.24	5.15	5.07	4.91	31	20.00	18.73	17.58	16.54	15.59	13.92
7	6.23	6.11	6.00	5.89	5.78	5.58	32	20.38	19.06	17.87	16.78	15.80	14.08
8	7.01	6.87	6.73	6.59	6.46	6.20	33	20.76	19.39	18.14	17.02	16.00	14.23
9	7.78	7.60	7.43	7.26	7.10	6.80	34	21.13	19.70	18.41	17.24	16.19	14.36
10	8.53	8.31	8.11	7.91	7.72	7.36	35	21.48	20.00	18.66	17.46	16.37	14.49
11	9.25	9.00	8.76	8.52	8.30	7.88	36	21.83	20.29	18.90	17.66	16.54	14.62
12	9.95	9.66	9.38	9.11	8.86	8.38	37	22.16	20.57	19.14	17.86	16.71	14.73
13	10.63	10.30	9.98	9.68	9.39	8.85	38	22.49	20.84	19.36	18.05	16.86	14.84
14	11.29	10.92	10.56	10.22	9.89	9.29	39	22.80	21.10	19.58	18.22	17.01	14.94
15	11.93	11.51	11.11	10.73	10.37	9.71	40	23.11	21.35	19.79	18.40	17.15	15.04
16	12.56	12.09	11.65	11.23	10.83	10.10	41	23.41	21.59	19.99	18.56	17.29	15.13
17	13.16	12.65	12.16	11.70	11.27	10.47	42	23.70	21.83	20.18	18.72	17.42	15.22
18	13.75	13.18	12.65	12.16	11.68	10.82	43	23.98	22.06	20.37	18.87	17.54	15.30
19	14.32	13.70	13.13	12.59	12.08	11.15	44	24.25	22.27	20.54	19.01	17.66	15.38
20	14.87	14.21	13.59	13.00	12.46	11.46	45	24.51	22.49	20.72	19.15	17.77	15.45
21	15.41	14.69	14.02	13.40	12.82	11.76	46	24.77	22.70	20.88	19.28	17.88	15.52
22	15.93	15.16	14.45	13.78	13.16	12.04	47	25.02	22.89	21.04	19.41	17.98	15.58
23	16.44	15.62	14.85	14.14	13.48	12.30	48	25.26	23.09	21.19	19.53	18.07	15.65
24	16.93	16.05	15.24	14.49	13.79	12.55	49	25.50	23.27	21.34	19.65	18.16	15.70
25	17.41	16.48	15.62	14.82	14.09	12.78	50	25.72	23.45	21.48	19.76	18.25	15.76

TABLE II.—PRESENT VALUE OF \$1 A YEAR, PAYABLE EACH DEC. 31, AT COMPOUND INTEREST

Courtesy of the World Almanac.

Days	3½%	4%	4½%	4¾%	5%	5½%	5¾%	6%	6½%	7%	7½%	8%		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		
1	0.1042	0.1111	0.1181	0.1250	0.1319	0.1389	0.1458	0.1528	0.1597	0.1667	0.1806	0.1944	0.2083	0.2222
2	0.2083	0.2222	0.2361	0.2500	0.2639	0.2778	0.2917	0.3056	0.3194	0.3333	0.3611	0.3889	0.4167	0.4444
3	0.3125	0.3333	0.3542	0.3750	0.3958	0.4167	0.4375	0.4583	0.4792	0.5000	0.5417	0.5833	0.6250	0.6666
4	0.4167	0.4444	0.4722	0.5000	0.5278	0.5556	0.5833	0.6111	0.6389	0.6667	0.7222	0.7778	0.8333	0.8888
5	0.5208	0.5556	0.5903	0.6250	0.6597	0.6944	0.7292	0.7639	0.7986	0.8333	0.9028	0.9722	1.0417	1.1111
6	0.6250	0.6667	0.7083	0.7500	0.7917	0.8333	0.8750	0.9167	0.9583	1.0000	1.0833	1.1667	1.2500	1.3333
7	0.7292	0.7778	0.8264	0.8750	0.9236	0.9722	1.0208	1.0694	1.1181	1.1667	1.2639	1.3611	1.4583	1.5555
8	0.8333	0.8889	0.9444	1.0000	1.0556	1.1111	1.1667	1.2222	1.2778	1.3333	1.4444	1.5556	1.6667	1.7777
9	0.9375	1.0000	1.0625	1.1250	1.1875	1.2500	1.3125	1.3750	1.4375	1.5000	1.6250	1.7500	1.8750	2.0000
10	1.0417	1.1111	1.1806	1.2500	1.3194	1.3889	1.4583	1.5278	1.5972	1.6667	1.8056	1.9444	2.0833	2.2222
11	1.1458	1.2222	1.2986	1.3750	1.4514	1.5278	1.6042	1.6806	1.7569	1.8333	1.9861	2.1389	2.2917	2.4444
12	1.2500	1.3333	1.4167	1.5000	1.5833	1.6667	1.7500	1.8333	1.9167	2.0000	2.1667	2.3333	2.5000	2.6666
13	1.3542	1.4444	1.5347	1.6250	1.7153	1.8056	1.8958	1.9861	2.0764	2.1667	2.3472	2.5278	2.7083	2.8888
14	1.4583	1.5556	1.6528	1.7500	1.8472	1.9444	2.0417	2.1389	2.2361	2.3333	2.5278	2.7222	2.9167	3.1111
15	1.5625	1.6667	1.7708	1.8750	1.9792	2.0833	2.1875	2.2917	2.3958	2.5000	2.7083	2.9167	3.1250	3.3333
16	1.6667	1.7778	1.8889	2.0000	2.1111	2.2222	2.3333	2.4444	2.5556	2.6667	2.8889	3.1111	3.3333	3.5555
17	1.7708	1.8889	2.0069	2.1250	2.2431	2.3611	2.4792	2.5972	2.7153	2.8333	3.0694	3.3055	3.5417	3.7777
18	1.8750	2.0000	2.1250	2.2500	2.3750	2.5000	2.6250	2.7500	2.8750	3.0000	3.2500	3.5000	3.7500	4.0000
19	1.9792	2.1111	2.2431	2.3750	2.5069	2.6389	2.7708	2.9028	3.0347	3.1667	3.4306	3.6944	3.9583	4.2222
20	2.0833	2.2222	2.3611	2.5000	2.6389	2.7778	2.9167	3.0556	3.1944	3.3333	3.6111	3.8889	4.1667	4.4444
21	2.1875	2.3333	2.4792	2.6250	2.7708	2.9167	3.0625	3.2083	3.3542	3.5000	3.7917	4.0833	4.3750	4.6666
22	2.2917	2.4444	2.5972	2.7500	2.9028	3.0556	3.2083	3.3611	3.5139	3.6667	3.9722	4.2778	4.5833	4.8889
23	2.3958	2.5556	2.7153	2.8750	3.0347	3.1944	3.3542	3.5139	3.6736	3.8333	4.1528	4.4722	4.7917	5.1111
24	2.5000	2.6667	2.8333	3.0000	3.1667	3.3333	3.5000	3.6667	3.8333	4.0000	4.3333	4.6667	5.0000	5.3333
25	2.6042	2.7778	2.9514	3.1250	3.2986	3.4722	3.6458	3.8194	3.9931	4.1667	4.5139	4.8611	5.2083	5.5555
26	2.7083	2.8889	3.0694	3.2500	3.4306	3.6111	3.7917	3.9722	4.1528	4.3333	4.6944	5.0555	5.4167	5.7777
27	2.8125	3.0000	3.1875	3.3750	3.5625	3.7500	3.9375	4.1250	4.3125	4.5000	4.8750	5.2500	5.6250	6.0000
28	2.9167	3.1111	3.3056	3.5000	3.6944	3.8889	4.0833	4.2778	4.4722	4.6667	5.0556	5.4444	5.8333	6.2222
29	3.0208	3.2222	3.4236	3.6250	3.8264	4.0278	4.2292	4.4306	4.6319	4.8333	5.2361	5.6389	6.0417	6.4444
30	3.1250	3.3333	3.5417	3.7500	3.9583	4.1667	4.3750	4.5833	4.7917	5.0000	5.4167	5.8333	6.2500	6.6666

TABLE I.—SINGLE INTEREST TABLE—30 DAYS TO THE MONTH

Courtesy of Financial Publishing Co.

YEARS.	3%	4%	4½%	5%	6%	YEARS.	3%	4%	4½%	5%	6%
1	1.03	1.04	1.04	1.05	1.06	19	1.75	2.10	2.30	2.52	3.02
2	1.06	1.08	1.09	1.10	1.12	20	1.80	2.19	2.41	2.65	3.20
3	1.09	1.12	1.14	1.15	1.19	21	1.86	2.27	2.52	2.78	3.40
4	1.12	1.17	1.19	1.21	1.26	22	1.91	2.37	2.63	2.92	3.60
5	1.15	1.21	1.24	1.27	1.33	23	1.97	2.46	2.75	3.07	3.82
6	1.19	1.26	1.30	1.34	1.41	24	2.03	2.56	2.87	3.22	4.04
7	1.23	1.31	1.36	1.40	1.50	25	2.09	2.66	3.00	3.38	4.29
8	1.26	1.36	1.42	1.47	1.59	26	2.15	2.77	3.14	3.55	4.54
9	1.30	1.42	1.48	1.55	1.68	27	2.22	2.88	3.28	3.73	4.82
10	1.34	1.48	1.55	1.62	1.79	28	2.28	2.99	3.43	3.92	5.11
11	1.38	1.53	1.62	1.71	1.89	29	2.35	3.11	3.58	4.11	5.41
12	1.42	1.60	1.69	1.79	2.01	30	2.42	3.24	3.74	4.32	5.74
13	1.46	1.66	1.77	1.88	2.13	31	2.50	3.37	3.91	4.53	6.08
14	1.51	1.73	1.85	1.98	2.26	32	2.57	3.50	4.09	4.76	6.45
15	1.55	1.80	1.93	2.07	2.39	33	2.65	3.64	4.27	5.00	6.84
16	1.60	1.87	2.02	2.18	2.54	34	2.73	3.79	4.46	5.25	7.25
17	1.65	1.94	2.11	2.29	2.69	35	2.81	3.94	4.66	5.51	7.68
18	1.70	2.02	2.20	2.40	2.85	100	19.21	50.50	81.58	131.50	339.30

TABLE III.—AMOUNT OF ONE DOLLAR AT COMPOUND INTEREST

Courtesy of the World Almanac.



END OF YEAR.	3%	4%	4½%	5%	6%	END OF YEAR.	3%	4%	4½%	5%	6%
1.....	1.03	1.04	1.04	1.05	1.06	26.....	39.71	46.08	49.71	53.66	62.70
2.....	2.09	2.12	2.13	2.15	2.18	27.....	41.93	48.96	52.99	57.40	67.52
3.....	3.18	3.24	3.27	3.31	3.37	28.....	44.21	51.96	56.42	61.32	72.64
4.....	4.30	4.41	4.47	4.52	4.63	29.....	46.57	55.08	60.00	65.43	78.05
5.....	5.46	5.63	5.71	5.80	5.97	30.....	49.00	58.32	63.75	69.76	83.80
6.....	6.66	6.89	7.01	7.14	7.39	31.....	51.50	61.70	67.66	74.29	89.89
7.....	7.89	8.21	8.38	8.54	8.89	32.....	54.07	65.21	71.75	79.06	96.34
8.....	9.15	9.58	9.80	10.02	10.49	33.....	56.73	68.85	76.03	84.06	103.18
9.....	10.46	11.00	11.28	11.57	12.18	34.....	59.46	72.85	80.49	89.32	110.43
10.....	11.80	12.48	12.84	13.20	13.97	35.....	62.27	76.59	85.16	94.83	118.12
11.....	13.19	14.02	14.46	14.91	15.87	36.....	65.17	80.70	90.04	100.62	126.26
12.....	14.61	15.62	16.16	16.71	17.88	37.....	68.15	84.97	95.13	106.71	134.90
13.....	16.08	17.29	17.93	18.59	20.01	38.....	71.23	89.40	100.46	113.09	144.05
14.....	17.59	19.02	19.78	20.57	22.27	39.....	74.40	94.02	106.03	119.80	153.76
15.....	19.15	20.82	21.71	22.65	24.67	40.....	77.66	98.82	111.84	126.84	164.04
16.....	20.76	22.69	23.74	24.84	27.21	41.....	81.02	103.82	117.92	134.23	174.95
17.....	22.41	24.64	25.85	27.13	29.90	42.....	84.48	109.01	124.27	141.99	186.50
18.....	24.11	26.67	28.06	29.53	32.76	43.....	88.04	114.41	130.91	150.14	198.75
19.....	25.87	28.77	30.37	32.06	35.78	44.....	91.72	120.02	137.85	158.70	211.74
20.....	27.67	30.96	32.78	34.71	38.99	45.....	95.50	125.87	145.09	167.68	225.50
21.....	29.53	33.24	35.30	37.50	42.39	46.....	99.39	131.94	152.67	177.11	240.09
22.....	31.45	35.61	37.93	40.43	45.99	47.....	103.40	138.26	160.58	187.02	255.56
23.....	33.42	38.08	40.68	43.50	49.81	48.....	107.54	144.83	168.85	197.42	271.95
24.....	35.45	40.64	43.56	46.72	53.86	49.....	111.79	151.67	177.50	208.34	289.33
25.....	37.55	43.31	46.57	50.11	58.15	50.....	116.18	158.77	186.53	219.81	307.75

TABLE IV.—WHAT A SAVING OF \$1 A YEAR AMOUNTS TO AT COMPOUND INTEREST  
Courtesy of the World Almanac.

RATE.	AT COMPOUND INTEREST.				RATE.	AT COMPOUND INTEREST.			
	At Simple Interest.	Com-pounded Yearly.	Com-pounded Semi-Annually.	Com-pounded Quarterly.		At Simple Interest.	Com-pounded Yearly.	Com-pounded Semi-Annually.	Com-pounded Quarterly.
1	100 years.	60.660	60.487	69.237	6	16.67	11.896	11.725	11.639
1½	66.66	46.536	46.382	46.297	6½	15.38	11.007	10.836	10.750
2	50.00	35.003	34.830	34.743	7	14.29	10.245	10.074	9.966
2½	40.00	28.071	27.899	27.748	7½	13.33	9.584	9.414	9.328
3	33.33	23.450	23.278	23.191	8	12.50	9.006	8.837	8.751
3½	28.57	20.149	19.977	19.890	8½	11.76	8.497	8.327	8.241
4	25.00	17.673	17.501	17.415	9	11.11	8.043	7.874	7.788
4½	22.22	15.747	15.576	15.490	9½	10.52	7.638	7.468	7.383
5	20.00	14.207	14.035	13.949	10	10.00	7.273	7.103	7.018
5½	18.18	12.942	12.775	12.689	12	8.34	6.116	5.948	5.862

TABLE V.—YEARS IN WHICH A GIVEN AMOUNT WILL DOUBLE AT SEVERAL RATES OF INTEREST  
Courtesy of the World Almanac.

YEARS.	3%	4%	4½%	5%	6%	YEARS.	3%	4%	4½%	5%	6%
5.....	4,580	4,462	4,390	4,329	4,212	35.....	21,487	18,664	17,461	16,374	14,498
10.....	8,539	8,111	7,913	7,722	7,360	40.....	23,115	19,793	18,401	17,159	15,046
15.....	11,938	11,118	10,740	10,380	9,712	45.....	24,519	20,720	19,156	17,774	15,456
20.....	14,877	13,590	13,008	12,462	11,470	50.....	25,730	21,482	19,762	18,256	15,762
25.....	17,413	15,622	14,828	14,094	12,783	100.....	31,599	24,505	21,950	19,848	16,618
30.....	19,600	17,292	16,289	15,372	13,765						

TABLE VI.—PRESENT VALUE OF AN ANNUITY OF \$1,000  
Courtesy of the World Almanac.

IV. *Periodic savings at compound interest.* The amount to which a given sum, *e. g.*, \$1 saved regularly at the beginning of each year, will accumulate at compound interest at various rates for different time intervals. See Table IV above.

V. *Doubling of principal.* The number of years in which a given sum will double at different rates of interest. See Table V above.

VI. *Present value of an annuity.* Present value (or cost to buy) of an annuity of a given sum, *e. g.*, \$1,000, at different rates of

compound interest, for a varying number of annual incomes. See Table VI above.

VII. *Amortization of principal plus interest.* The aggregate amount required to cancel a debt (bond or note) of a given sum, *e. g.*, \$1,000, on the amortization plan, and simple interest plan, for different maturities at various rates of interest. See Table VII on following page.

VIII. *Sinking fund accumulations.* The amount or instalment to be set aside periodically (annually, semi-annually, or quarterly) which at various rates of compound interest

—AMOUNT REQUIRED TO CANCEL A \$1,000 LOAN ON—

Time, in Years.	The Amortization Plan.	THE SIMPLE INTEREST PLAN				
		5 per cent.	5½ per cent.	6 per cent.	6½ per cent.	7 per cent.
5.....	\$1,243.99	\$1,250.00	\$1,275.00	\$1,300.00	\$1,325.00	\$1,350.00
6.....	1,291.03	1,300.00	1,330.00	1,360.00	1,390.00	1,420.00
7.....	1,337.41	1,350.00	1,385.00	1,420.00	1,455.00	1,490.00
8.....	1,383.10	1,400.00	1,440.00	1,480.00	1,520.00	1,560.00
9.....	1,328.07	1,450.00	1,495.00	1,540.00	1,585.00	1,630.00
10.....	1,472.28	1,500.00	1,550.00	1,600.00	1,650.00	1,700.00
11.....	1,515.69	1,550.00	1,605.00	1,660.00	1,715.00	1,770.00
12.....	1,558.26	1,600.00	1,660.00	1,720.00	1,780.00	1,840.00
13.....	1,599.95	1,650.00	1,715.00	1,780.00	1,845.00	1,910.00
14.....	1,640.71	1,700.00	1,770.00	1,840.00	1,910.00	1,980.00
15.....	1,680.49	1,750.00	1,825.00	1,900.00	1,975.00	2,050.00
16.....	1,719.25	1,800.00	1,880.00	1,960.00	2,040.00	2,120.00
17.....	1,756.94	1,850.00	1,935.00	2,020.00	2,105.00	2,190.00
18.....	1,793.49	1,900.00	1,990.00	2,080.00	2,170.00	2,260.00
19.....	1,828.86	1,950.00	2,045.00	2,140.00	2,235.00	2,330.00
20.....	1,862.99	2,000.00	2,100.00	2,200.00	2,300.00	2,400.00
21.....	1,895.80	2,050.00	2,155.00	2,260.00	2,365.00	2,470.00
22.....	1,927.24	2,100.00	2,210.00	2,320.09	2,430.00	2,540.00
23.....	1,957.23	2,150.00	2,265.00	2,380.00	2,495.00	2,610.00
24.....	1,985.70	2,200.00	2,320.00	2,440.00	2,560.00	2,680.00
25.....	2,012.58	2,250.00	2,375.00	2,500.00	2,625.00	2,750.00
26.....	2,037.78	2,300.00	2,430.00	2,560.00	2,690.00	2,820.00
27.....	2,061.21	2,350.00	2,485.00	2,620.00	2,755.00	2,890.00
28.....	2,082.80	2,400.00	2,540.00	2,680.00	2,820.00	2,960.00
29.....	2,102.44	2,450.00	2,595.00	2,740.00	2,885.00	3,030.00
30.....	2,120.04	2,500.00	2,650.00	2,800.00	2,950.00	3,100.00
31.....	2,135.49	2,550.00	2,705.00	2,860.00	3,015.00	3,170.00
32.....	2,148.69	2,600.00	2,760.00	2,920.00	3,080.00	3,240.00
33.....	2,159.52	2,650.00	2,815.00	2,980.00	3,145.00	3,310.00
34.....	2,167.86	2,700.00	2,870.00	3,040.00	3,210.00	3,380.00
35.....	2,173.58	2,750.00	2,925.00	3,100.00	3,275.00	3,450.00
36.....	2,176.56	2,800.00	2,980.00	3,160.00	3,340.00	3,520.00

TABLE VII.—FEDERAL FARM LOAN INTEREST TABLES

Period.	\$100.0000	\$100.0000	\$100.0000	\$100.0000	\$100.0000	\$100.0000
1.....	49.2611	49.1400	49.0196	48.8998	48.7805	48.5437
2.....	32.3530	32.1934	32.0349	31.8773	31.7209	31.4110
3.....	23.9027	23.7251	23.5490	23.3744	23.2012	22.8591
4.....	18.8355	18.6481	18.4627	18.2892	18.0975	17.7396
5.....	15.4597	15.2668	15.0762	14.8878	14.7017	14.3363
6.....	13.0506	12.8544	12.6610	12.4701	12.2820	11.9135
7.....	11.2456	11.0477	10.8528	10.6610	10.4722	10.1036
8.....	9.8434	9.6446	9.4493	9.2574	9.0690	8.7022
9.....	8.7231	8.5241	8.3291	8.1379	7.9505	7.5868

TABLE VIII.—SINKING FUND OR ANNUITY WHICH, INVESTED AT THE END OF EACH MONTH, WILL AMOUNT TO \$100.00

will accumulate to a sinking fund sufficient at varying maturities to retire the principal of a given amount of bonds. See Table VIII above.

Simple interest tables for computing interest on short-term loans are based on a 360-day and 365-day year. Commercial banks customarily use the 360-day tables but the Federal Reserve banks compute their transactions on the 365-day table. There are a number of tables showing the amount of interest on a given sum at various interest rates from 1 to 365 days.

(See Amortization Loans, Annuity, Bond Values Table, Discount, Interest.)

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**Interest Warrant**

An order by a corporation for the payment of interest due on its bonds, notes, etc.—especially a check in payment of interest on registered bonds. (See Warrant.)

**Interim Certificates**

Temporary printed certificates; provisional bonds or stocks issued to purchasers of a new issue until the final or permanently engraved securities can be issued to take their place. Final stock certificates or bonds are known as definitive or permanent securities. Since the preparation of the definitive bond and stock certificates involves time and purchasers require some sort of documentary proof of ownership, interim certificates are provided to fill the gap. Interim certificates may be issued by the debtor corporation



or by the syndicate managers of the syndicate floating the issue. They are also known as receipts, or syndicate managers' receipts.

### Interim Dividend

A dividend paid in anticipation of the usual periodic dividend. Some corporations make a practice of paying an interim dividend at a small nominal rate each month or quarter, in anticipation of the disbursement of the full dividend declared at the annual meeting at the close of the fiscal year.

### Interim Receipts

See Interim Certificates.

### Interior Banks

An ill-advised term to denote banks located outside of New York city, other than Federal Reserve banks, Federal land banks, etc. Practically all banks not located in New York find it convenient to maintain banking connections and to carry balances with some New York bank. The purpose of these balances is to enable banks outside of New York city to sell drafts on New York, to deal in foreign exchange, issue letters of credit, etc., the New York correspondent being the instrumentality by which these transactions are consummated. For this reason, New York is treated throughout the country both as a reserve and financial center. Even the banks located in Chicago, although technically central reserve city banks, are regarded as interior banks, a term roughly equivalent to *Country Banks* (q. v.).

### Interlocking Directors

Directors of one corporation who are at the same time directors of another in the same or similar line of business. By this means a community of interest between the two corporations is secured to the end that competition is lessened or entirely eliminated.

By the Clayton Act interlocking directors are prohibited among banks, either of which, with certain exceptions, has a combined capital, surplus, undivided profits, and deposits of five million dollars or over. (See Clayton Act.)

### Intermediate Credit Banks

The twelve banks created by the Agricultural Credit Act of 1923, which have the same officers and directors as the twelve Federal Land banks. (See Farm Credits Act.)

Following are the preliminary rules and regulations for the purchase of paper and making of loans by the Federal Intermediate Credit Banks:

#### DEFINITIONS.

The term "advanced in the first instance for any agricultural purpose" shall be held to mean advanced in the first instance to a person engaged in agriculture for the purpose of carrying on agricultural productions or defraying an indebtedness arising therefrom.

The term "Agricultural Credit Corporation" shall be held to mean a corporation organized under the laws of any state for the purpose of loaning money for agricultural purposes as herein defined, or for the raising, breeding, fattening or marketing of live stock.

The term "Cooperative Credit Association" shall be held to mean a cooperative Association organized under the laws of any state for the purpose of procuring for its members credit for agricultural purposes as herein defined, or for the raising, breeding, fattening or marketing of live stock.

#### AGRICULTURAL CREDIT CORPORATIONS AND INCORPORATED LIVE STOCK LOAN COMPANIES.

Any agricultural credit corporation or incorporated live stock loan company seeking a line of rediscount with an Intermediate Credit Bank will be required to file with such bank

(a) Its application in writing for the establishment of such relation.

(b) A statement of its financial condition in such detail as the Intermediate Credit Bank may require, but which must in each case disclose its actually paid-in capital stock, its total assets and liabilities, and the nature of the securities in which its capital is invested.

(c) The written opinion of its counsel that the institution has power under the laws of the state to rediscount paper.

(d) A resolution of its Board of Directors authorizing such rediscount.

(e) The official signature of the officers who are authorized to bind the corporation.

(f) An agreement to report to the Farm Loan Board any time upon call a detailed statement of its financial condition in such form as the Farm Loan Board shall prescribe, and an agreement to submit to, at its own expense, at least two examinations each year by National Bank Examiners or Land Bank Examiners. No rediscounts will for the present be accepted from any such institutions which has not a paid-up and unimpaired capital of at least \$10,000.

Corporations submitting debentures for discount with the Federal Intermediate Credit Banks must deposit with the Farm Loan Registrars the securities upon which such debentures are based.

#### COOPERATIVE CREDIT ASSOCIATIONS.

Any cooperative credit association desiring to establish rediscount privilege will be required to file with the Intermediate Credit Bank of its district:

(a) A copy of its charter or articles of association.

(b) A general statement of its plan of operation.

(c) A statement of its counsel that it has under the laws of the state in which it exists authority to rediscount paper. These must in each instance, be submitted to and approved by the Farm Loan Board before the rediscount privilege is granted.

No paper will for the present be rediscounted for cooperative credit associations except the types of paper which may be rediscounted for cooperative producing or marketing associations, namely, where the notes or other obligations representing such loans are secured by warehouse receipts or shipping documents covering staple agricultural products or mortgage on live stock, and such loans may not exceed 75 per cent of the market value

of such staple agricultural product or live stock.

Loans against warehouse receipts upon live stock must be accompanied by collateral agreement to provide such additional security from time to time as may be necessary to preserve the prescribed relation between the market value of the security and the amount loaned.

The term "staple agricultural product" shall for the present be defined to mean grain, cotton, wool, tobacco and peanuts. Dairy products, eggs, fruits and vegetables subject to future determination.

#### STATE BANKS, TRUST COMPANIES AND SAVINGS INSTITUTIONS.

Any state bank, trust company, or savings institution seeking the rediscount privilege shall make application therefor in writing to the proper Intermediate Credit Bank, accompanied by:

(a) A financial statement in such form as is required of it by the supervising authority in its jurisdiction.

(b) Its authorization in writing to the supervising authority to furnish to the Intermediate Credit Bank of its district upon request any report of condition or examination or other confidential information in the possession of such supervising authority.

(c) A resolution of its Board of Directors authorizing such rediscount.

(d) The official signature of the officers who are authorized to bind the corporation.

(e) The certificate of its counsel that it has full authority under its corporate powers and the laws of its jurisdiction to make such rediscount.

#### NATIONAL BANKS.

National banks seeking the rediscount privilege shall make application in writing to the proper Intermediate Credit Bank, accompanied by:

(a) A financial statement in such form as is required of it by the Comptroller of the Currency upon call.

(b) A resolution of its Board of Directors authorizing such rediscount.

(c) The official signatures of the officers who are authorized to bind the corporation.

#### WAREHOUSE RECEIPTS

Intermediate Credit Banks will accept the receipt of any warehouse licensed and bonded under the Federal Warehouse Act. In all other cases the warehousing laws and regulations of the state controlling the same must be submitted to the Federal Farm Loan Board for approval.

#### MATURITIES

No loans may, under the Act, be made on paper acquired with a maturity of less than six months from the date of the transaction, and for the present no paper will be taken with a maturity longer than nine months.

#### ADDITIONAL RULES AND REGULATIONS FOR THE PURCHASE OF PAPER AND MAKING OF LOANS BY FEDERAL INTERMEDIATE CREDIT BANK.

1. A Federal Intermediate Credit Bank shall not rediscount notes of any person or corporation in an amount exceeding the individual loans which such bank or other rediscounting agency may make under the laws of the jurisdiction under which it is organized, or if no such limitation is imposed, then the limit shall be 20 per cent of the paid-in and unimpaired capital and surplus of such corporation.

Where, however, a note is secured by warehouse receipts representing readily marketable and non-perishable agricultural commodities or chattel mortgages on live stock, the limit upon such individual loans shall be 50 per cent of the paid-in and unimpaired capital and surplus of such corporation.

2. Warehouse receipts, whether tendered with discounts or as security for direct loans or advances, will be accepted as security only upon readily marketable and non-perishable agricultural products.

3. In addition to the commodities heretofore defined as "staple agricultural products," the following commodities are added to the list upon

which warehouse receipts will be accepted as security for loans.

Broom corn, beans, including soy-beans, rice, hay, nuts and canned fruits and vegetables.

Nuts and canned fruits and vegetables suggest special warehousing problems in addition to the ordinary warehousing questions which must be solved before loans or advances may be made, particularly as to marketability and as to peculiar warehousing facilities necessary to qualifying these products as non-perishable.

4. Organizations, whether co-operative or otherwise, engaged in buying feed, fertilizer, or other agricultural commodities, and distributing such commodities among their farmer members, cannot borrow directly from the Intermediate Credit Banks, even though such commodities shall be warehoused and warehouse receipts offered thereon as security. Farmers wishing credit for the purchase of agricultural products, machinery, live stock, or other equipment to aid in agriculture, can reach the Intermediate Credit Banks only through a capital stock rediscounting agency. Commercial banks may furnish such loans, or the farmers may borrow through agricultural credit corporations, which can rediscount such paper with the Intermediate Credit Banks.

5. The Federal Intermediate Credit Banks are authorized to collect the actual expenses incurred in the appraisal or inspection of the property offered as security for discounts or direct loans or advances. The bank or other agency which takes the note in the first instance is not authorized to make any inspection or appraisal charges.

#### Internal Bonds (or Loans)

Bonds issued by a Government in its own currency for purchase by investors at home. Such bonds are to be distinguished from external bonds which the Government sells in a foreign market and in the currency of that market. (See External Bonds.)

#### International Checks

Same as *Traveler's Cheques* (q. v.).

#### International Clearing House

There is of course no physical clearing house where foreign bills of exchange and other instruments are used in the settlement of foreign transactions. In reality the market for foreign exchange constitutes the international clearing house.

#### International Code

See Cipher Code.

#### International Exchange

Same as *Foreign Exchange* (q. v.).

#### International Gold Movements

See Foreign Exchange, Gold Reserve.

#### International Money Order

See Money Orders.

#### International Postal Money Order

See Money Orders.



### International Securities

Bonds or stocks which enjoy a ready market on the principal exchanges of several leading nations, thus being subject to arbitrage transactions. The stocks of the leading American railways and of the Canadian Pacific and United States Steel are examples of international securities, being traded on the New York, London and Montreal stock exchanges. This term also refers to bonds and stocks, the interest (or dividends) upon which is payable in the financial centers of two countries, *e. g.*, certain securities listed on several of the continental exchanges.

### International Trade

See Foreign Trade.

### Interstate Commerce Act

An act approved by Congress on February 4, 1887, and amended in 1888, 1903 (Elkins amendment), 1906 (Hepburn amendment), and 1910 (Mann-Elkins amendment), for the purpose of bringing all railroads doing an interstate business under the regulation of a common body, namely, the Interstate Commerce Commission. The original act sought chiefly to correct certain abuses, leading to four main provisions *viz.*: (1) prohibition of pooling; (2) forbidding discrimination between persons in the form of special rates and rebates; between localities; and between connecting lines and commodities; (3) requiring all charges to be reasonable, and that rates and fares be printed and posted for public examination; and (4) making it unlawful to charge more for a shorter than for a longer distance over the same line in the same direction, when the shorter distance is included within the longer, except by special permission.

The jurisdiction of the Interstate Commerce Commission has been extended to include pipe lines, telegraph companies, express companies, sleeping-car companies, and telephone and cable companies, engaged in interstate traffic. By subsequent acts, including the Transportation Act of 1920, the Commission has power to fix railroad rates, *i. e.*, to change rates either on its own initiative or on that of the carriers. One of its chief powers is to require monthly reports of earnings and operating conditions from the carriers over which it has jurisdiction.

### Interstate Commerce Commission

See Interstate Commerce Act.

### Intestacy (Intestate)

When a person dies without leaving a will he is known as an intestate decedent and his estate is an intestacy. An intestacy is terminated by an administrator appointed by a probate (or surrogate) court. (See Administrator, Letters of Administration.)

### Intrinsic Value

Literally, the actual value which a thing possesses in itself. This concept is somewhat nebulous and philosophical, but among economists implies value-in-use or utility, as distinguished from market value.

In referring to metallic money, intrinsic value denotes the bullion value of the metal composing the coin. Paper money is sometimes said to have no intrinsic value, meaning that the paper upon which it is printed is worthless. There is a certain amount of quibbling in stressing this point of view, since everyone recognizes that the value of paper money or any credit instrument, depends upon the collateral behind it or the credit standing and financial responsibility of the maker.

In referring to securities, intrinsic value denotes the value of a stock or bond as an investment, *i. e.*, its worth as shown by its underlying equities, security, and past and potential earning power of the issuing organization, as distinguished from the ruling market value which because of depression or speculative enthusiasm, may be either below or above intrinsic value.

### Inventory

A schedule or listing of property owned by an individual or concern and generally applied to the itemization of a single kind of property, the quantity, unit price, and total value being indicated for each item. Thus a merchandise inventory in a department store would consist of an itemized schedule of each kind of merchandise, shoes, carpets, mens' suits, hosiery, etc., showing the quantity on hand in one column, the unit price in a second column, and the total price, (*i. e.*, extension) in a third.

Physical inventories of merchandise, raw materials, goods in process and finished stocks should be taken at least annually, preparatory to making the financial statements and determining the profits for the year. Some businesses maintain a perpetual inventory.

## Inventory Value

The price at which merchandise, securities, or other property is on an inventory sheet. The rule prescribed by accountants and auditors is that merchandise should be valued at cost of market, whichever is lower. This is a conservative practice based upon the principle that losses should always be taken but profits never anticipated. Due allowance should be made also for physical deterioration of merchandise which has become shop-worn, soiled, obsolete, or otherwise unsalable.

Bonds carried for trading purposes may reasonably be valued above cost if the market price has advanced since the time of purchase, but preferably at several points under the market. (See Inventory.)

## Investment

In a loose sense, the employment of capital for gain, whether in a business, farm, urban real estate, Government bonds, industrial bonds, oil stocks, merchandise, or an education. More strictly, it is the purchase of property for the sake of its income, but always with a view to eliminating the risk of impairment of the principal, as distinguished from *Speculation* (q. v.). "The investor buys to procure the income from the principal, while the speculator buys to secure the profits that may accrue in a realized appreciation of the principal."\* Pratt says that "in making such a purchase safety is the primary consideration, the amount of the income is important but secondary."† An investor, as distinguished from a speculator "contemplates little or no risk, fixed interest return, and little or no thought of profit. . . . The intent in an investment is to regain the principal (with or without a profit, which, however, will be only incidental) on the termination of the venture, pending which termination, a fixed and sure income will be received."‡

A few authors limit the meaning of investment to purchases of property, *e. g.*, bonds, acceptances, notes, mortgage loans, etc., in which the relation between the original outlay and the final return is as nearly certain as can be contrived in a human world. According to this view the investor must possess an enforceable contract, preferably supported by security and signed by a debtor having adequate financial responsibility, which calls for the payment of a fixed

sum at a stipulated rate of interest, at a stated maturity.

Reduced to its lowest terms, investment is, therefore, the purchase of a series of future incomes, definite and known in advance, which provides also for the repayment of the principal sum without loss on a certain date; or which provides as in the case of an annuity for the return of the principal as a part of the interest, on the regular interest dates. (See Investment Bank, Investment Market, Investment Media, Investment Securities, Speculation.)

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### Investment Association

A form of investment insurance organization in which the trained and experienced judgment of investment experts in the purchase of securities is substituted for the uninformed judgment of the individual investor. The individual investor places his investment funds with the association for investment by it in selected securities of other corporations, sharing in the profits of the association in the proportion that his investment bears to the total invested funds. Sometimes the association issues its own bonds and shares, the proceeds being used to invest in the securities of other corporations. The members of the association buy these bonds and shares, which are available in small denominations, their income consisting of the interest derived from the bonds and the dividends from the stock.

In this way the small investor obtains the benefit of expert investment knowledge, and the association, by having large sums of money, can buy advantageously, and distribute its purchases over a wide range of investments, thereby distributing the risk. These associations are much more common in England and continental Europe than in the United States.

### Investment Bank

A bank engaged in the buying and selling of securities. Except in "blue-sky" states, these banks are not subject to regulation by the state or federal government, as are commercial and savings banks. (See Investment Banker.)

### Investment Banker

A banker engaged in investment banking, *i. e.*, financing the capital requirements of business, as distinguished from the seasonal or current requirements. The investment banker is the middleman between businesses which require capital for purchase of fixed assets, *e. g.*, the expansion of plant and facilities, and the ultimate investor, who has money to lend. New and expanding enterprises come to the investment banker for aid in the financing of their capital requirements. The investment banker then analyzes the affairs of the applicant for capital credit in order to determine whether he is justified in undertaking to finance the enterprise. This analysis is usually exhaustive, involving a study of the assets, earnings, sales, market for the product, personnel, and likelihood of success, or continued success. If the financing is undertaken, the kind of securities are then selected, and the amount, rate, and price, are agreed upon. Usually an investment banker shifts the risk of marketing these securities by forming a syndicate in which he becomes the manager, but in which others are invited to participate. (See Syndicate, Underwriting.)

An investment banker is a buyer and seller of securities. He buys them from the issuing organization, or from a syndicate, and sells to security dealers, or to the investor. The investment banker is required to have considerable capital, since he must be in a position to "clear" large blocks of securities. His securities, however, are available as collateral for loans. An investment banker is in no way pledged to indemnify the investor against any loss he may sustain by reason of the securities sold.

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### Investment Bankers Association

See Bankers Associations.

### Investment Barometers

Barometers which foretell the trend in bond prices, among which are, trend of interest rates, trend of commodity prices, ration of reserves to liabilities of the Federal Reserve System, extent of use of capital for commercial purposes, degree of activity of business, gold movements and gold production. (See Business Barometers.)

### Investment Company

As defined by the New York State banking law, "any corporation other than an insurance corporation formed under the laws of this state or of any other state, and doing business in this state for the purpose of selling, offering for sale, or negotiating to individuals other than bankers bonds or notes secured by deed of trust or mortgages on real property or choses in action, owned, issued, negotiated, or guaranteed by it, or for the purpose of receiving any money or property, either from its own members or from other persons, and entering into any contract, engagement or undertaking with them for the withdrawal of such money or property at any time with any increase thereof, or for the payment to them or to any person of any sum of money at any time, either fixed or uncertain."

The term is sometimes applied to investment bankers or other companies engaged in retailing securities.

### Investment Credit

Credit furnished to finance the purchase of long-term, durable goods. A purchaser of corporation bonds or real estate mortgages is a lender of investment credit. (See Credit.)

### Investment Income

Income derived from invested capital, as distinguished from income derived from services. (See Income.)

### Investment Market

The channels or outlets for distributing bonds and other investments. The chief market for bonds exists among the following classes of purchasers: investing public (private investors), banks—commercial, savings, and trust companies; speculative public; insurance companies; business concerns; investment associations; trust estates and trustees; eleemosynary institutions; foundations; trade unions; fraternal orders and clubs; college endowments.

### Investment Media

The properties in which capital may be invested for gain; the various kinds of purchasable income-bearing properties. The following are the most usual types of investment media:

1. Bonds—Government, state, municipal, railroad, public utility, industrial, mining, oil, real estate.
  2. Annuities—life, terminable, perpetual.
  3. Real Estate Mortgage Bonds and Certificates.
  4. Savings Accounts.
  5. Certificates of Deposit—Time and Demand.
  6. Chattel Mortgage Bonds.
  7. Land Bank and Joint-Stock Land Bonds.
  8. Farm Mortgages.
  9. Stocks—railroad, public utility, industrial, bank and trust company, insurance.
  10. Farms.
  11. Urban Real Estate—business and residential.
  12. Notes, Acceptance, and Bills of Exchange.
  13. Endowment and Old Age Insurance.
  14. U. S. Government Treasury Certificates.
  15. U. S. Government Postal Savings Bonds and Stamps.
  16. Foreign Investment Securities.
- (See Investment.)

### Investment Securities

Securities which are entitled to an investment rating, *i. e.*, securities which are safe as to principal and yield a fair return. Investment securities are limited to bonds and a few high-grade preferred stocks.

The tests of an investment bond are:

1. *Security of principal*, which depends largely upon the character of the issuer, class of lien, and nature of collateral pledged.
  2. *Regularity of income*.
  3. *Fairness of yield*.
  4. *Marketability*, which depends largely upon whether it is listed, and upon its activity.
  5. *Collateral value*, or acceptability as security for a loan.
  6. *Exemption from taxation*.
  7. *Exemption from care*.
  8. *Acceptability of denomination and term*.
  10. *Registration privileges*.
  11. *Place of payment of interest and principal*.
- (See Investment.)



**Investments for Savings Banks**

See Legal Investments for Savings Banks.

**Investments for Trust Funds**

See Legal Investments for Trust Funds.

**Investment Stocks**

Stocks suitable for purchase because of their stability of income and capital value. In a loose sense, certain high-grade stocks of seasoned companies are referred to as investment stocks, but in reality the term is contradictory, since in a stock there is no contractual obligation on the part of the issuer to repay the principal. (See Investment, Speculation.)

**Investment Trust**

A form of organization, more common abroad than here, *e. g.*, The Corporation of Foreign Bondholders in England, which purchases foreign securities, and sometimes issues its own securities against the securities purchased. A secondary purpose of such a trust is to protect the interest of investors in foreign securities.

**Investment Value**

The value of a security measured solely on the basis of its income. (See Amortization, Basis Value, Yield.)

**Investor**

See Investment.

**Invisible Imports**

According to Say's Law, which is an important enunciation of a commonly recognized principle, the values passing between two nations are equal, *i. e.*, exports and imports are equivalent values. This does not mean that the *merchandise* exports of any one country may not exceed its *merchandise* imports, or vice versa. Suppose that one country exports \$10,000,000 of merchandise to another and receives \$8,000,000 of merchandise in exchange. The balance of \$2,000,000 may be paid for in gold, by what are known as the invisible imports, which consist of items that escape the records of the Customs officials, or by a loan. The normal invisible imports consist of: (1) securities purchased in foreign countries; (2) loans made to foreign borrowers by private investors and bankers; (3) expenditures by travelers and tourists abroad; (4) remittances on account of interest and dividends upon securities held abroad; (5) remittances

on account of ocean freight charges; (6) remittances on account of marine insurance premiums; (7) remittances on account of bankers' commissions; (8) remittances by immigrants to friends and relatives abroad; (9) payment of matured loans made by foreign banks to American bankers.

Since the War, the importation of foreign securities has grown to immense proportions and has assisted in counteracting our heavy excess of commodity exports. Many of these securities enjoy an international market.

**Invisible Supply**

A term used to indicate the amount of a commodity—grain, cotton, or other agricultural product—in the possession of farmers and which has not yet reached the primary markets. (See Visible Supply.)

**Invoice**

A sales slip; an itemized bill given by a seller to a purchaser of goods showing all the particulars of the sale, *e. g.*, date, name of buyer and seller, salesman's number, quantity and description of articles, unit prices, extensions, discounts, if any, total footing, etc., The invoice is in reality an original entry record and since the billing system has come into general use, a duplicate of each invoice frequently is retained by the seller from which the monthly statement is prepared.

**Involuntary Bankruptcy**

See Bankruptcy.

**Irish Dividend**

A stock market expression humorously denoting an assessment upon stock, *i. e.*, instead of the stockholder receiving a dividend, he is called upon to pay an assessment.

**Irredeemable Bonds**

Bonds with a fixed maturity, but not subject to prior redemption; bonds which cannot be called for redemption by the issuer (payer or obligor) before maturity. They should not be confused with Perpetual Bonds or *Intermediate Bonds* (q. v.).

**Irredeemable Debenture**

A form of bond common among British railroads which have no fixed date of maturity or other provision for repayment of the principal, except in case of liquidation. Having a fixed rate of interest, the com-

panies issuing these bonds are at a disadvantage since they are unable to refund them with issues bearing a lower interest rate whenever a period of easy money exists. These debentures provide the owner with a perpetual annuity.

### Irredeemable Paper Money

Money which a Government has made legal tender in payment of debts, but which is not redeemable in standard money, *i. e.*, gold or silver, the metals commonly used as a basis for currency in all commercial countries. At present irredeemable paper money is normally used only by four countries—Chile, Guatemala, Haiti, and Paraguay. At the present time, however, most of the nations of Europe which were belligerents in the late war have resorted to irredeemable paper.

Irredeemable paper money usually becomes the standard money and tends to drive metallic money out of circulation, or places it at a premium through the operation of *Gresham's Law* (q. v.). It is subject to wide fluctuations in value and causes similar fluctuations, though in inverse ratio, in commodity prices. (See *Fiat Money*.)

### Irregular

An expression used to indicate unevenness or variation in prices on a stock market; prices moving in opposite directions, some stocks advancing and others declining.

### Irregularities

Informalities or infirmities which make a negotiable instrument technically invalid. A small percentage of the checks and other items presented to a bank, especially through a clearing house, contain some formal irregularity. This necessitates their return to the presenting bank or firm for correction or re-issue. Banks usually provide themselves with printed form to be attached to such checks explaining the reason for their return.

The chief formal irregularities which require the return of checks are: alteration, counter signature missing, date, dated ahead, drawn against uncollected funds, duplicate paid, indorse exactly as drawn, indorsement illegible, indorsement incorrect, indorsement missing, filling (words and figures differ), guarantee of amount, guarantee of indorsement, insufficient funds, no account, no advice to pay, no instructions to pay, not due, not handled through exchange, original paid, past due, payment stopped, recalled, sent

wrong, signature incorrect, signature missing, signature unknown, two signatures required, etc.

### Irrevocable Credit

See *Letters of Credit*.

### Irrevocable Stock Power

See *Stock Power*.

### Irrevocable Trust

See *Trusts*.

### Irrigation Bonds

Bonds issued to finance irrigation projects. Many sections of the West, especially Oregon, California, Idaho, Montana, Wyoming, Colorado, Nevada, Utah, Arizona, North and South Dakota, must resort to artificial irrigation in order to carry on successful agriculture. Projects to irrigate certain portions of these arid lands have been undertaken by three different agencies; irrigation districts, private corporations, and State Governments under the provisions of the Carey Act.

Irrigation bonds as a class are entitled to no higher investment rating than industrial bonds. (See *Carey Act Bonds*.)

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### Irrigation District Bonds

*Irrigation Bonds* (q. v.) issued by an irrigation district as distinguished from Carey Act irrigation bonds or irrigation bonds issued by a private corporation. Irrigation district bonds belong to the quasi-municipal class.

### Issue

As a verb, to give out, emit, pass for delivery, or distribute. A Government issues currency, bonds, etc.; a bank issues notes, cashier's checks, money orders, letters of credit, etc.; a corporation issues checks, notes, bonds, stocks, etc.

As a noun, in underwriting and investment finance, the term means a new flotation of securities placed on the market for distribution to the investing public.

### Issued Capital Stock

That portion of the stock of a corporation which is outstanding in the hands of the



stockholders or repurchased and held by a corporation as *Treasury Stock* (q. v.). It is not required that all of the authorized stock of a corporation be immediately issued. Issued capital stock is the difference between the authorized and unissued capital stock. (See Capital Stock.)

### Issue Price

The price at which a new flotation or issue of stock or bonds is offered to the public by the underwriting syndicate, as distinguished from the "underwriting price," that paid by the underwriting syndicate to the issuing organization. It also differs from the price paid by the banks or investment

houses invited to participate in the distribution of the issue by the underwriting syndicate. The price quoted to the investment houses is the issue price less a certain concession, *e. g.*,  $\frac{1}{2}$  per cent., 1 per cent., etc.

### Items

A general term used in banking practice to denote such negotiable instruments as are payable upon presentation and includes checks, money orders, and matured drafts, acceptances, and notes. The term is usually employed in combination with a qualifying word, *e. g.*, "cash items," "collection items," "clearing house items," "city items," "out-of-town items," etc.

## J

### Jettison

The act of throwing overboard a ship's cargo in order to lighten the vessel when there is danger of sinking. An ocean carrier, as usually indicated by the ocean bill of lading, does not assume liability for jettison. This risk should therefore be covered in the *Marine Insurance Certificate* (q. v.).

### Jobber (of Securities)

See Stock Jobber.

### Joint Account

This term has three meanings:

(1) A joint business venture, or temporary partnership.

(2) A bank account owned jointly by two or more persons. (See Joint Deposits.)

(3) A name given to a joint undertaking entered into by an investment bank or broker and a commercial bank with the object of raising funds for purchasing or underwriting securities. It differs from underwriting, however, in that it involves less capital and is far more common. Suppose that an investment bank or broker has learned that it can purchase or underwrite an issue of bonds under favorable conditions and with unusual opportunities to sell them at a profit. Since the transaction involves more capital than the investment bank can raise, it extends an invitation to a friendly banking connection to enter into a joint account with it to purchase the bonds for resale, the bank to furnish all or part of the necessary capital. Before the bank consummates such an arrangement, it satisfies itself of the soundness of the venture and its likelihood of successful culmination.

If the invitation to enter into a joint account is acceptable to the co-operating bank, arrangements may be made as follows: the bank may advance all or a part of the funds, and if the latter, the investment bank contributes the remainder. It devolves upon the investment bank to dispose of the issue, but the bank may, by agreement, participate in making sales if it is to the advantage of the joint account, for which a selling commission is usually provided. Sales must be completed by the investment bank within a specified time. If any bonds remain unsold at the ex-

piration of that period, the time may be extended by agreement, or the account closed out. In the latter case, the contracting parties divide between them the unsold balance on the basis of their respective participations. Profits and losses are divided according to agreement. Interest may be charged the investment bank for funds advanced by the lending bank either at a flat rate or at the coupon rate of the bonds carried. In case the funds are furnished entirely by the bank, the bonds are held by it as security for the advance. Bonds may be withdrawn by the investment bank against sales, the proceeds being returned to the bank. If the investment bank has advanced a part of the funds it keeps a part of the bonds in its possession.

Profits of the joint account may be carried on the books of either party. If on the books of the bank, bonds are delivered at their selling price to the investment bank when the latter makes sales, but only upon actual payment. If profits are carried on the books of the investment bank bonds are delivered to it when sales are made, but at the purchase or clearance price.

### Joint and Several Note

See Jointly and Severally.

### Joint Bonds

Bonds, whether of the mortgage, collateral trust, or debenture variety, which are the joint obligations of two or more issuing debtor organizations. The Great Northern-Northern Pacific joint collateral trust  $6\frac{1}{2}$ s are an example of this class of bonds. This issue is secured by stock of the Chicago, Burlington and Quincy Railroad owned jointly by the obligor railroads. The issue is therefore secured by a specific pledge of collateral, and by the credit of the two railroad companies.

### Joint Deposits

Deposits made in the names of two persons connected by the word "and," being their joint property subject to check by either of them and belonging to the survivor on the death of the other. Joint deposits like alternate deposits may be created as a



result of a gift, trust, or joint tenancy. The purpose of such deposits is for convenience in withdrawing funds or to make a gift of the property to the survivor after the death of the other, thereby avoiding administration. (See Alternate Deposits.)

### Joint Indorsement

An indorsement made by two or more payees or indorsees. Where an instrument is made payable to the order of two or more payees or indorsees who are not partners, all must endorse unless the one endorsing has authority to indorse for the others. (See Indorsement.)

### Jointly and Severally

When a note, mortgage, or bond is signed by several makers, who "jointly and severally promise to pay", each maker is individually liable for the full amount. This differs from the liability of each separate maker when the wording is "we jointly promise to pay". In this case the makers are liable as a whole and not individually.

### Joint Mortgage

A mortgage signed by two or more mortgagors, being the joint obligation of the signing parties. (See Mortgage.)

### Joint Note

A note which is signed by two or more makers, thus: "We promise to pay", the words "jointly and severally" being omitted. (See Jointly and Severally.)

In case a joint note is not met at maturity, the holder in order to recover, must sue all the makers jointly. A note of a partnership, *e. g.*, Brown & Smith, is a joint note, in the same manner as a note signed by two or more individuals.

### Joint-Stock Banks

The name given to the incorporated commercial banks of England as distinguished from the Bank of England and the private banks, banking partnerships, foreign banks, etc. There are about twenty of these banks in England and Wales, each having a large number of branches. The oldest joint banks were founded in the decade 1830—1840, and have tended to absorb the small institutions. These banks maintain reserves with the *Bank of England* (q. v.).

The table on the next page presents relevant statistical data concerning the joint stock and private banks of Great Britain.

### Joint Stock Company

A form of business organization which stands intermediary between a partnership and corporation, and much more common in England than in the United States. It is a voluntary association of individuals without a charter from the state but having a capital divided into transferable shares, the ownership of which is a condition of membership. Its management is vested in a board of managers or directors who may bind the company in so far as they act within the scope of their authority. Like a partnership, the joint stock company has no legal personality, but grows out of a purely contractual relation. It is not entitled to limited liability. Shareholders may not bind the company unless elected or appointed as agents.

### Joint-Stock Land Bank Bonds

Bonds which are direct obligations of the various *Joint-Stock Land Banks* (q. v.) organized under the Federal Farm Loan Act. They are secured either by first mortgages on farm land limited to 50 per cent. of the value of the land and 20 per cent. of the value of the permanent insured improvements (as in the case of Federal Farm Loan bonds), or by United States Government obligations, deposited with the Federal Farm Loan Registrar. They are further secured by the resources of the joint stock land bank of issue and by double liability of the shareholders. Bonds cannot be issued in excess of fifteen times the amount of the capital and surplus of the obligor bank.

The Federal Farm Loan Act declares that these bonds are instrumentalities of the United States Government, and are free from all Federal, State, municipal, and local taxation, excepting only inheritance taxes. This declaration has been upheld by a decision of the Supreme Court of the United States given February 28, 1921. They are a legal investment for all fiduciary and trust funds under the jurisdiction of the federal government, and are acceptable as security for postal savings and other Government deposits.

The formal details of joint stock land bank bonds are similar to those of Federal Farm Loan bonds, and the Act requires that they shall be so engraved as to be readily distinguished in form and color from the latter. The issues now outstanding are 30 year bonds, redeemable ten years after issue. Issued in coupon form, they are fully registerable and interchangeable. Denominations are \$1,000. The maximum interest rate is 5

JOINT STOCK BANKS OF ENGLAND AND WALES  
(Excluding Bank of England)

	1890	1900	1910	1920	1921
Number of banks.....	104	77	45	20	20
Capital and reserves.....	£67,826,000	£78,847,000	£80,946,000	£128,154,000	£129,131,000
Deposits .....	368,663,000	586,726,000	720,687,000	1,961,527,000	1,974,898,000
Discounts and advances.....	269,507,000	395,313,000	467,880,000	1,263,091,000	1,280,171,000
Total resources .....	464,075,000	698,762,000	862,134,000	2,200,317,000	2,185,438,000

JOINT STOCK BANKS OF SCOTLAND

	1890	1900	1910	1920	1921
Number of banks.....	10	10	9	8	8
Capital and reserves.....	£14,755,000	£16,217,000	£17,559,000	£17,911,000	£18,521,000
Deposits .....	91,610,000	107,154,000	106,652,000	279,228,000	291,060,000
Discounts and advances.....	60,103,000	70,395,000	70,661,000	153,122,000	150,850,000
Total reserves.....	117,874,000	137,498,000	137,850,000	339,166,500	344,974,000

JOINT STOCK BANKS OF IRELAND

	1890	1900	1910	1920	1921
Number of banks.....	9	9	9	9	9
Capital and reserves.....	£10,374,000	£10,894,000	£11,475,000	£12,899,000	£13,154,000
Deposits .....	38,521,000	49,449,000	62,508,000	200,441,000	212,860,000
Discounts and advances.....	28,791,000	37,464,000	44,127,000	109,623,000	119,275,000
Total reserves.....	56,132,000	67,988,000	82,150,000	240,391,000	246,881,000

PRIVATE BANKS OF ENGLAND AND WALES

	1890	1900	1910	1920	1921
Number of banks.....	38	19	9	5	5
Capital and reserves.....	£11,834,000	£6,192,800	£3,535,100	£3,123,100	£3,186,700
Deposits .....	70,372,000	40,420,000	26,808,000	50,864,600	48,306,800
Discounts and advances.....	36,320,000	20,919,600	15,912,700	35,501,400	36,214,400
Total resources .....	85,483,000	48,029,200	31,497,700	55,012,400	52,464,000

COLONIAL BANKS WITH OFFICES IN LONDON

*African*

	1890	1900	1910	1920	1921
Number of banks.....	2	5	9	6	6
Capital and reserves.....	£2,005,800	£4,684,000	£8,239,700	£17,975,700	£17,620,100
Deposits .....	10,408,600	24,424,900	43,628,800	151,698,100	128,533,000
Discounts and advances.....	10,920,700	18,559,700	30,509,200	126,626,600	99,519,400
Total resources .....	16,672,400	35,306,300	61,144,200	211,874,700	180,687,900

*Australasian*

	1890	1900	1910	1920	1921
Number of banks.....	19	16	17	15	14
Capital and reserves.....	£24,424,100	£30,307,100	£33,612,300	£53,991,400	£58,731,900
Deposits .....	138,065,900	107,408,600	152,885,400	273,364,800	278,162,300
Discounts and advances.....	145,535,900	102,820,200	132,956,900	251,737,300	247,031,600
Total resources .....	184,931,200	157,299,500	212,615,200	381,546,300	384,576,000

*Canadian*

	1890	1900	1910	1920	1921
Number of banks.....	4	4	5	8	7
Capital and reserves.....	£6,907,100	£6,679,100	£13,122,300	£39,248,600	£37,564,400
Deposits .....	9,182,400	17,584,600	83,600,500	377,965,500	344,088,300
Discounts and advances.....	17,123,600	23,488,000	54,269,400	238,425,300	209,336,800
Total resources .....	22,200,300	30,544,200	107,995,700	477,958,900	426,239,300

*Indian*

	1890	1900	1910	1920	1921
Number of banks.....	5	5	5	4	4
Capital and reserves.....	£4,347,200	£3,186,800	£6,100,000	£14,171,500	£14,565,800
Deposits .....	17,964,400	18,084,800	34,547,000	118,352,600	95,873,000
Discounts and advances.....	27,541,300	22,147,300	32,101,200	108,740,200	82,457,500
Total resources .....	36,003,400	30,207,600	47,339,600	159,492,400	130,327,500

FOREIGN JOINT STOCK BANKS WITH LONDON OFFICES

	1890	1900	1910	1920	1921
Number of banks.....	18	28	35	33	31
Capital and reserves.....	£25,323,700	£73,164,100	£160,783,200	£224,581,100	£227,604,600
Deposits .....	63,009,500	192,193,500	639,811,100	1,847,930,600	1,818,690,200
Discounts and advances.....	97,174,800	270,218,400	774,235,800	1,701,199,000	1,560,542,600
Total resources .....	128,099,900	347,649,300	993,706,600	.....	.....



per cent., interest being payable semi-annually. (See Federal Farm Loan Bonds.)

### Joint-Stock Land Banks

Corporations which the Federal Farm Loan Act permits any number of natural persons not less than ten to organize for the purpose of lending on farm mortgage security and issuing *Joint Stock Land Bank Bonds* (q. v.). These banks are entirely distinct from the twelve Federal land banks and the national farm loan associations of borrowers, although they are organized for the same purpose. Joint stock land banks are chartered and supervised by the Federal Farm Loan Board with a capital of not less than \$250,000, none of which is furnished by the Government, as in the case of the Federal Land banks.

Like the loans of the Federal land banks, joint stock land banks may make loans secured only by first mortgages, which must contain an agreement providing for the repayment of the loan on the amortization plan, and which are not in excess of 50 per cent. of the value of the mortgaged land, or 20 per cent. of the permanent, insured improvements. (See Amortization Loans.) Loans must be made on farm lands within the state in which the joint stock land bank has its principal office, or within some one state contiguous to such state. There are some restrictions imposed upon Federal land banks from which joint stock land banks are free, *e. g.*, they may lend more than \$10,000 to one person, and are not restricted to loans for the same purposes.

Joint stock land banks may not charge a rate of interest on farm loans to exceed by more than one per cent. the rate of interest established for the last series of bonds issued by them, and in no case more than 6 per cent. (See Federal Farm Loan Act, Federal Farm Loan System.)

### Journal

In bookkeeping, a book of original entry; a record in which transactions are entered chronologically, *i. e.*, in the order in which they occur, and from which they are posted to a ledger. Original entry records are also sometimes known as registers and blotters. Frequently, moreover, the original entry record is not made in a book but on various forms of posting mediums, *e. g.*, deposit slip, debit and credit tickets.

### Judgment

A pecuniary award ordered by a court as the result of a law suit. A judgment con-

stitutes a liability of the *Judgment Debtor* (q. v.), and should accordingly appear upon his books. Likewise the award from the viewpoint of the judgment creditor is an asset, or contingent asset, since although awarded may be uncollectible.

### Judgment Bonds

Municipal bonds issued to satisfy a municipal debt which has been contested in a lawsuit but validated, and an award made, by decision of a court. Such bonds are in popular disfavor but since the court can enforce payment are safe investments provided the obligor has ability to pay, and the judgment has been obtained in the absence of fraud.

### Judgment Creditor

A creditor whose claim has been validated in a court of law and has been reduced to a judgment against the debtor.

### Judgment Debt

A debt which has been contested in a lawsuit, and found to be due; a debt validated and against which an award has been made by a court.

### Judgment Debtor

A debtor against whom a creditor has secured a judgment, which has been placed on record. (See Judgment Debt.)

### Judgment Note

An ordinary promissory note given by a debtor to a creditor to avoid legal action by the latter. It is an acknowledgment of a debt due the creditor and usually contains a power of attorney permitting the creditor to appear in court and confess judgment for the debtor.

### Junior Bonds

Bonds which are preceded by another issue or issues in their claim against the property pledged as security therefor. In the case of foreclosure they constitute a claim against the property pledged as security only after all prior claims have been satisfied. Junior bonds may be any kind of bonds except first mortgage bonds, *e. g.*, second mortgage bonds, general mortgage bonds, debenture bonds. They are the opposite of *Senior Bonds* (q. v.).

### Junior Issue

*Junior Bonds* (q. v.); or junior stock which usually refers to common stock as distinguished from preferred stock.

**Junior Lien**

See Junior Bonds, Junior Issue, Junior Mortgage, Lien.

**Junior Mortgage**

An overlying mortgage; a mortgage which is preceded by another or others in its claim

against the mortgaged property, and which in case of foreclosure, would not be satisfied until all prior mortgages have been satisfied. A junior mortgage constitutes a junior lien upon the mortgaged property and is any mortgage other than the first, *e. g.*, second, third, general, etc. (See Junior Bonds, Mortgage.)

**K****Kern Amendment**

See Clayton Act.

**Killing**

An expression used among stock or produce exchange speculators to denote an unusually large and unexpected trading profit.

**Kiting Checks**

A term used in banking to denote a method sometimes used by depositors to make use of fictitious balances by drawing against uncollected funds. Depositors are not entitled to draw against uncollected funds, but banks are not always careful in guarding against paying against funds deposited but not collected. Where this is true, it is possible for two persons living in different localities to exchange checks with one another and by depositing them with their respective banks, to have use of the funds until the day of collection, when funds may be deposited to make good the amount.

Kiting may also be practiced by a single individual having two bank accounts. By depositing a check drawn on bank "A" to the credit of his account in bank "B", and depositing a check drawn on bank "B" to the credit of his account in bank "A", a

person may draw against the fictitious balances thus credited, expecting to "cover" before the checks are presented.

In the long run, banks are able to detect individuals who make a practice of kiting. This practice injures the depositor's credit standing and may result in his losing his account.

**Kiting Stocks**

A stock market expression used to denote the forcing of stock prices to unwarranted high levels inflating or ballooning the prices of stocks.

**Kopeck**

See Foreign Moneys—Russia.

**Kran**

See Foreign Moneys—Persia.

**Krone**

See Foreign Moneys—Austria and Hungary.

**Kroner**

See Foreign Moneys—Norway, Sweden and Denmark.



## L

### Labor Banks

A name given to banks which have been organized, and the stock owned, by labor unions and their members. About thirteen such banks are now in operation, and as many more are in contemplation. Except for the fact that they are operated under the auspices of labor unions primarily (although dealings are in no sense restricted to union members), they differ in no essential respects from other banks. The pioneer and most successful of these banks is the Locomotive Brotherhood Bank in Cleveland, Ohio. Of the total stock of this bank, 51 per cent. is owned by the Locomotive Brotherhood as an organization, the remainder being held by members of the brotherhood individually. Stockholders are to receive no more than 10 per cent. in dividends, and any surplus that may accrue is to be distributed to depositors in an increased interest rate.

### Lac (or Lakh)

See Foreign Moneys—India.

### Lamb

An expression which signifies an inexperienced speculator who "plays the market", *i. e.*, speculates blindly. Such a person is called a lamb because he follows the herd, buying or selling because others do so, and, therefore, likely to be easy "prey" for the skilled operators. His transactions are not based on a knowledge of fundamental conditions, or of intrinsic values, equities, or earning power, but upon "tips" or hazy impressions. He trusts largely on chance, betting on the rise and fall of quotations. Whenever a lamb makes a profit it is more accidental than otherwise. Ultimately he is bound to lose, or to be "fleeced" by the more experienced and better informed speculators. (See Fleece, Gamble.)

### Lame Duck

An expression to denote a person who has become financially embarrassed—especially used with reference to speculators.

### Land Banks

This term refers to three types of institutions:

(1) Several experiments in so-called land banking were made in American colonial history. The earliest, established in 1681, was known as "The Fund at Boston in New England." In 1714 a more elaborate land bank was established, known as "A Projection for Erecting a Bank of Credit in Boston, New England, founded on Land Security." Following these two projects were the New London Bank in 1732, and the Land Bank of 1740. Each of these banks was founded on the principle that land could be made the basis of credit and currency, being the ultimate security and redemption value therefor. It was believed that paper currency could be collateralized by landed security, and that current redemption would be unnecessary. As a corollary of this belief, no capital was required in starting operations, but merely confidence. All the land bank experiments failed. It was not fully understood in this early period that credit or paper currency must be backed by actual specie, and that it must be redeemed in specie and not merely by a promise to pay based upon land as security.

(2) Some of the states have organized what are known as land banks for the purpose of assisting building and loan associations in raising capital to finance the building of homes. The Land Bank of the State of New York, for instance, is a non-stock co-operative corporation, the membership of which is composed of "savings and loan associations", "for the purpose of issuing and redeeming debenture bonds secured by first mortgages pledged by its members, and for otherwise promoting their interests."

(3) Banks instituted to finance the purchase of farm lands and equipment, or to pay off existing debt. (See Federal Farm Loan Banks, Federal Land Banks, Federal Farm Loan System, Joint Stock Land Banks, National Farm Loan Associations.)

### Land Bonds

See Federal Farm Loan Bonds, Joint Stock Land Bank Bonds, Mortgage Certificates, Mortgage Loans, Real Estate Bonds.

### Land Grant Bonds

A type of railroad bonds secured by tracts of land granted to certain railroads (espe-

cially the Canadian Pacific, Union Pacific, Northern Pacific, and Illinois Central), by the Federal Government, and retired through a sinking fund created by the sale of such lands to homesteaders. Only a few issues of these bonds are still outstanding.

### Lapse

A term used in connection with insurance. An insurance policy is said to lapse when the policyholder fails to pay the premium when due or within the period of grace which is usually one month. Reinstatement of a lapsed policy is provided for by most companies upon the payment of a small sum, although in some cases, re-examination is required. Under most policies the holder is entitled to a "paid up" or "extended" insurance policy in case of lapse.

### LaSalle Street

The street in Chicago where most of the financial institutions are located; hence, by extension, a popular name for the Chicago financial district, as Wall Street is for New York, State Street is for Boston, and Lombard Street for London. LaSalle Street is another name for financial Chicago.

### Latin Monetary Union

See Latin Union.

### Latin Union

A union formed in December, 1865, consisting of France, Belgium, Italy and Switzerland, which adopted a common decimal coinage system based upon the French franc equivalent to \$0.193 in United States money, as the unit of value. Greece joined the Union in 1868. These five nations have agreed to accept without distinction, and to use as interchangeable, gold pieces not reduced in weight by natural abrasion more than  $\frac{1}{2}$  per cent. Five franc silver pieces conforming to certain conditions are also acceptable without distinction and are interchangeable. While the unit of value is the same in each country, it is known by different names; franc in France, Belgium and Switzerland, lira in Italy, and drachma in Greece. Other countries which have adopted the system without joining the Union are Spain (peseta), Finland (finmark or marka), Roumania (lei), Bulgaria (lev), Serbia (dinar), and Venezuela (bolivar).

Since the war which brought violent dislocations to some of these currencies, certain of the features of the Latin Union above mentioned, have undergone modification.

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### Lawful Money

As defined in the opinions of the Attorney General of the United States, "The term Lawful Money is understood to apply to every form of money which is endowed by law with legal tender quality." Before the Federal Reserve Act, National banks were required to keep their reserves in "gold or lawful money." Lawful money was held to consist of gold coin, silver dollars and United States legal tender notes. Since the Federal Reserve Act, the composition of the reserves of National banks is not defined, the Act requiring merely that certain balances be kept in the Federal Reserve bank. The term still retains its meaning, however, in defining the composition of the reserves of the Federal Reserve banks, the Act stating that reserves against deposits must be in gold or lawful money. Since gold certificates have been made legal tender (December 24, 1919), gold coins, gold certificates, silver dollars, and United States notes are now lawful money. By process of elimination it would seem that silver certificates, Federal Reserve notes, Federal Reserve bank notes, National bank notes and fractional currency are not lawful money. Yet silver certificates are specifically made lawful money for reserve purposes. (See page 8, "Monetary System of the Principal Countries of the World"—U. S. Mint Bureau, 1917.) The purpose of designating lawful money at present is twofold: (1) to define the composition of the reserves which Federal Reserve banks are required to maintain against deposits of member banks; (2) to define the money in which Federal Reserve notes are redeemable. (See Legal Tender.)

### Lease

A contract granting or letting the possession of lands, buildings, tenements, offices, machinery, or other chattels for a specified fixed or indeterminate period, for a stated consideration, usually a periodical payment known as rent, or, in the case of land, as ground rent. After the expiration of a lease, the property reverts to the original owner. Lease contracts are usually in writing and in most states are required to be in writing, if for more than one year's duration. The contract usually sets up the relationship of landlord and tenant or owner and renter. Business properties, especially railroads, are

frequently leased as a method of securing control over subsidiary lines, or to effect a combination; thus the Boston and Albany Railroad is leased to the New York Central Railroad for ninety-eight years. Railroad equipment is also, to a very large extent, leased by railroad companies from equipment companies, the transaction being financed by equipment bonds which are paid off by rental payments.

The term lease is applied both to the property which is leased and the contract granting possession of the leased property. The person granting the lease is the lessor and the person taking the lease (possession of the property) is the lessee.

### Leasehold

The property conferred by the terms of a lease to the lessee; the property denominated in the instrument, as distinguished from the instrument itself. A leasehold is also known as a tenancy. (See Lease.)

### Legacy

A gift of money or other personal property made by the will of a *Testator* (q. v.). Legacies are of three kinds, specific, demonstrative, and general. A specific legacy is a gift of some specific article or particular part of the estate, which can be identified and distinguished from all others of the same nature, and is to be satisfied only by the delivery of such specific gift, *e. g.*, painting, ring, etc. A demonstrative legacy is a gift of a stated sum of money or of securities, payable out of a particular fund or security, *e. g.*, a gift of \$5,000 payable out of the proceeds of a certain described bond. It differs from a specific legacy because if the fund out of which the legacy is to be paid fails, recourse may be had to the general assets of the estate. A general legacy is a gift payable out of the general assets of the estate without reference to any particular fund or property. It does not call for the delivery of any particular piece of property and money gifts are usually construed to be general legacies. That portion of the estate remaining after the specific, demonstrative, and general legacies have been paid is known as the residuary estate.

The recipient of a legacy is known as a legatee, but a legacy may be void if the legatee dies before the testator, depending upon the wording of the will. In many cases this instrument leaves no doubt that the deceased legatee's gift is to pass on to his estate.

Unless there is provision in the will to the contrary, if the assets of the estate are insufficient to pay all the debts there must be an

abatement of the legacies. The deficiency will fall first upon the residuary estate and when this is exhausted the burden of the deficiency will rest pro rata on the general legacies. Specific legacies do not abate until the residuary estate and the amount equal to the sum of the general legacies has been exhausted. General legacies abate prior to demonstrative legacies, except when the fund out of which the demonstrative legacy is to be paid is insufficient, in which case the demonstrative legacy abates with the general legacies. In case, however, this fund is sufficient for the payment of the demonstrative legacy, the latter abates with the specific legacies. (See Will.)

### Legal Bonds

A general term to denote bonds which are legal for investment by (1) savings banks; (2) insurance companies; (3) trust funds, or (4) to secure Government or other deposits. The term is indefinite because relative, since bonds may be legal for one purpose, but not for another, for investment by savings banks, but not for trust funds, or as collateral to secure state deposits, but not for federal government deposits. A bond, moreover, may be a legal investment for savings banks in one state but not in another. (See Legal Investments for Savings Banks, Legal Investments for Trust Funds, Legality of Securities.)

### Legal Holidays

Days declared by state or territorial legislation to have the same status as Sunday as regards business transactions. Banks and public offices are closed, and under the Negotiable Instruments Law, every negotiable instrument maturing on a Sunday or a holiday is payable on the next succeeding business day.

Whenever a legal holiday falls on Sunday, the following day is observed, except in Louisiana where the same day is observed, and in Washington where the preceding day is observed. Sunday, New Year's Day, Washington's Birthday, July 4th, and Christmas, are legal holidays in every state and territory, but not necessarily the other holidays.

Although the Negotiable Instruments Law states that notes falling due on a holiday are payable the next succeeding business day, a few states have modified this provision, so that they are payable or presentable on the preceding day; it is therefore necessary to ascertain the law in each state. (See Bank Holidays.)



### Legal Investments for Savings Banks

In many states savings banks are restricted in the investment of deposits to certain types of securities. The chief reason for supervising savings bank investments is to remove the personal element, to enforce conservation and make savings banks as "fool-proof" as possible. Theoretically, all savings banks within a given state are equally safe for the depositor who is presumed by law to be unable completely to select his own bank on the basis of its published statements, personnel and policy. The laws of the various states, however, differ widely in the class of investments permitted for savings banks.

In general, legal savings bank investments may be classified in the following groups: (1) Government bonds; (2) state bonds (usually prohibiting those in which a default has occurred within a certain time); (3) mortgage loans; (4) city, country, town and school district bonds (specially of the state in which the bank is located and often in other states with certain restrictions as to debt limit); (5) railroad bonds (sometimes with the restriction that the stock of such railroad bear dividends, *e. g.*, at a 4 per cent. rate); (6) street railway bonds; (7) industrial bonds; (8) stocks; (9) miscellaneous investments, including loans secured by such collateral as is eligible for investment, and banker's acceptances.

Mortgage loans are made legal investments in all states, as well as investments in Government, state and municipal bonds, and loans with these securities as collateral. Railroad bonds are eligible for investment in most states. Bank stock is a common investment in New England. Personal loans are quite general throughout the states, while in the South and West, commercial paper is frequently the principal asset.

In all states savings bank laws have been framed so as to particularly benefit the locality which the bank serves, *e. g.*, the bonds of the state and of the cities, towns and counties thereof, are eligible for investment when frequently those of neighboring states are not, or else the qualifications are made more rigid.

The Superintendent of Banks of the State of New York is required by law to publish the list of investments legal for savings banks, annually. As a preface to the last circular, the Superintendent said in part: "The provisions with reference to municipal and railroad bonds are in some cases quite complicated and the legality of the investments of course depends entirely upon the conditions of the corporation or municipality

issuing the bonds under consideration, which may vary so greatly from time to time that a bond which was a legal investment on a fixed date, may not be a legal investment on the following day. No one can state positively that a particular bond is a legal investment on a certain date unless he has exact knowledge of the facts on the day with reference to which the statement is made. It is obviously improper for the trustees of the savings bank to rely solely upon this list, which is issued only for their protection and not with the intent that they shall place their sole reliance upon it."

Securities considered legal investments for New York savings banks, July 1, 1921, were as follows: (1) all interest-bearing obligations of the United States, or those for which the faith of the United States is pledged to provide payment for interest and principal, including bonds of the District of Columbia; (2) all interest-bearing obligations of New York State; (3) all interest-bearing obligations of all the states except Virginia and Iowa, but including Arizona, New Mexico and Hawaii; (4) all interest-bearing obligations or revenue notes sold at a discount of any city, county, town, village, school district or poor district in New York State issued pursuant to law, provided the full faith and credit of the municipality or district that issue them is pledged for their payment; (5) stocks and bonds of a selected list of cities, counties, villages and towns in adjoining states, including Connecticut, Massachusetts, New Jersey, Pennsylvania, Rhode Island and Vermont; (6) stocks and bonds of other selected cities; (7) selected railroad bonds.

New York savings banks are also permitted to invest in bonds secured by real estate mortgages (provided the loan does not exceed 60 per cent. of the appraised value of improved, or 40 per cent. of unimproved, property), and in bankers' acceptances.

### Legal Investments for Trust Funds

The laws of the different states vary widely in investments permitted for trust funds. Fiduciaries, especially trustees, must observe the law, except where the testator by will gives the trustee absolute discretion in the investment of the funds of the estate. The investments to which the fiduciaries are restricted are standards which provide valuable guides to other investors, and reference is frequently made in bond circulars to the fact that an investment is legal for trust funds in certain states where the law is known to be strict.

New Hampshire probably has the most stringent laws of any of the states, and except where otherwise authorized by the trust instrument, investments are confined to: (1) notes secured by mortgages on real estate at least double the value of the face of such notes; (2) deposits in savings banks of New Hampshire; (3) bonds or loans of the State of New Hampshire, or of counties, towns or cities in that state; and (4) bonds of the United States.

In New York the restrictions are almost identical to those of New Hampshire, investments being restricted to United States bonds, New York state bonds, bonds of cities and towns in New York state, and mortgages on unencumbered improved real estate within the state, not exceeding two-thirds the value thereof. Vermont may be taken as an example of a less "strict" state, the trustee being required only to use good faith, diligence and care in the investment of any trust funds that may come into his possession.

National banks having trust departments may invest trust funds in Federal Land bank, and joint-stock land bank bonds.

### Legality of Securities

In civil issues (except Federal Government bonds), legality depends upon the following conditions:

1. *Authority of issue.* State and municipal bond issues must be authorized by the constitution or statutory law. Some issues require a legislative or popular vote.

2. *Purpose of issue.* Municipal bond issues must be for a public purpose.

3. *Process of issue.* Municipal bond issues must be sufficiently advertised; usually bid for competitively; sold at par or above; and not above a maximum interest rate.

4. *Conformity to tax and debt restrictions.* Municipal bond issues must conform to any constitutional or statutory restrictions on the debt limit for the obligor municipality, and taxes above a certain amount cannot be levied for the purpose of paying the interest or principal.

In corporation bond issues, authority of the stockholders is required in some states and notice of the stockholders' meeting in which the proposed bond issue is to be voted upon must be given. Corporation bonds may be issued for value only, and the statutes of some states provide for limiting the amount of a corporation's indebtedness. Charter and by-law provisions must be complied with, and mortgage provisions should be carefully drawn.

Railroad bond issues (except short-term

notes) must be approved by the Interstate Commerce Commission, and public utility bonds must usually be approved by the Public Service Commission of the state in which the utility is located. (See Legal Bonds, Legal Opinion.)

### Legal Opinion

One of the risks which a bond buyer assumes concerns the legality or validity of the issue he contemplates purchasing. The legality of bonds is extremely important, because without it there may be no legal means by which investors' money may be returned. To avoid further difficulties, whenever a corporation bond issue is underwritten, the legal phases are examined by the corporation's counsel or by outside attorneys, and in the case of municipal bonds, by the attorney for the underwriting bond house. Some law firms make a specialty of giving legal opinions upon bond issues, consequently on bond circulars very often appears the phrase, "We have the legal opinion of —", or "legality approved by —". The investor would do well, however, to investigate the reputation of the lawyers who give legal opinions inasmuch as there is probably no bond issue so bad but that some lawyer would sign a favorable opinion to it. The legal opinion is related to the engineer's report and both are necessary features in the successful marketing of a bond issue. The first is a statement of legality, the second a statement of the technological condition of the corporation's property. (See Legality of Securities.)

### Legal Rate of Interest

The maximum rate of interest fixed by the laws of the various states, which a lender may charge a borrower for the use of money. In a few states where the rate of interest is unregulated, National banks are restricted to a maximum rate of 7 per cent. Where rates of interest are regulated, National banks are required to conform to the legal rate of the state in which they are located. Interest charged in excess of the legal rate is called usury and the laws of most states exact penalties of those who take *Usury* (q. v.)

The general business law prohibits corporations from imposing the defence of usury when borrowing money at rates in excess of the legal rate. Since corporations cannot plead usury, any rate of interest which they contract to pay is legally binding. Partnerships and individuals, however, may plead usury. In New York State the law permits loans payable on demand to be made at any



rate of interest where the amount involved is not less than \$5,000, and stocks, bonds, or other negotiable instruments are pledged as security. A time loan with stock exchange collateral at more than 6 per cent., however, would be usurious. Stock exchange brokers, therefore, borrowing upon stock exchange collateral may be charged any rate of interest for loans in amounts of \$5,000 or more, if payable on demand. In other states the legal rate of interest is often evaded by the addition of a commission charge.

The legal rates of interest for the various states are given in the following table.

State and Territories.	Legal Rate Per cent	Rate Allowed By Contract Per cent
Alabama .....	8	8
Alaska .....	8	12
Arizona .....	6	10
Arkansas .....	6 to 10	6 to 10
California .....	7	Any rate
Colorado .....	8	*Any rate
Connecticut .....	6	12
Delaware .....	6	6
Dist. of Col.....	6	10
Florida .....	8	10
Georgia .....	7	8
Hawaii .....	8	12
Idaho .....	7	12
Illinois .....	5	7
Indiana .....	6	8
Iowa .....	6	8
Kansas .....	6	10
Kentucky .....	6	6
Louisiana .....	5	8
Maine .....	6	Any rate
Maryland .....	6	6
Massachusetts .....	6	Any rate
Michigan .....	5	7
Minnesota .....	6	10
Mississippi .....	6	8
Missouri .....	6	8
Montana .....	8	12
Nebraska .....	7	10
Nevada .....	7	12
New Hampshire .....	6	6
New Jersey .....	6	6
New Mexico .....	6	12
New York .....	6	76
North Carolina .....	6	6
North Dakota .....	6	10
Ohio .....	6	8
Oklahoma .....	6	10
Oregon .....	6	10
Pennsylvania .....	6	6
Porto Rico .....	6	12(a)
Rhode Island .....	6	Any rate
South Carolina.....	7	8
South Dakota .....	7	12

Tennessee .....	6	6
Texas .....	6	10
Utah .....	8	12
Vermont .....	6	(b)
Virginia .....	6	6
Washington .....	6	12
West Virginia .....	6	6
Wisconsin .....	6	10
Wyoming .....	8	12

(\*) Not exceeding 2 per cent per month.  
 (†) New York has legalized any rate of interest on call loans of \$5,000 or upward, on collateral security. See Text.  
 (a) Pawnbrokers, 4 per cent per month.  
 (b) No statute.

The legal rates of interest under varying conditions, and penalties for usury as imposed by the leading states, are given below:

Alabama—8 per cent.; under contract 8 per cent.; the lender forfeits interest as a penalty for usury.

Arizona—6 per cent.; under contract 10 per cent.; the lender forfeits interest as a penalty for usury.

Arkansas—6 per cent.; under contract (in writing) 10 per cent.; the lender forfeits both principal and interest as a penalty for usury. Negotiable paper tainted with usury is void in the hands of an innocent holder.

California—7 per cent.; any rate under contract (in writing), no provision for penalty for usury.

Colorado—8 per cent.; any rate not exceeding 2 per cent. a month may be agreed upon; no provision for penalty for usury.

Connecticut—6 per cent.; under contract 12 per cent.; the penalty for usury is imprisonment or fine, or both, and no action shall be brought to collect either principal or interest.

Delaware—6 per cent.; under contract 6 per cent.; no penalty for usury; action at law may be had for recovery of excess interest over 6 per cent.

District of Columbia—6 per cent.; under contract 10 per cent.; the lender forfeits entire interest as penalty for usury.

Florida—8 per cent.; under contract 10 per cent.; the lender forfeits interest as penalty for usury.

Georgia—7 per cent.; under contract 8 per cent.; the lender forfeits interest as penalty for usury.

Idaho—7 per cent.; under contract 12 per cent.; the lender forfeits interest as penalty for usury.

Illinois—5 per cent.; under contract 7 per cent.; the lender forfeits interest as penalty for usury.

Indiana—6 per cent.; under contract (in writing) 8 per cent.; the lender forfeits ex-



cess interest (over 8 per cent.) as penalty for usury.

Iowa—6 per cent.

Nevada—7 per cent.; under contract (in writing) 12 per cent.; no provision for penalty for usury.

New Hampshire—6 per cent.; the lender forfeits three times excess interest as penalty for usury.

New Jersey—6 per cent.; under contract 6 per cent.; the lender forfeits all interest as penalty for usury.

New Mexico—6 per cent.; under contract in writing 12 per cent.; the lender forfeits double the interest if paid as penalty for usury; also it is a misdemeanor punishable by fine.

New York—6 per cent.; agreement may be made for any rate of interest on call loans over \$5,000 when warehouse receipts, bills of lading, certificates of stock, or negotiable instruments are given as collateral; the lender voids contract as to both principal and interest as penalty for usury; also it is a misdemeanor.

North Carolina—6 per cent.; under contract 6 per cent.; the lender forfeits entire interest (double amount if paid) as penalty for usury.

North Dakota—6 per cent.; under contract 10 per cent.; the lender forfeits all interest (double amount if paid) as penalty for usury.

Ohio—6 per cent.; under contract in writing 8 per cent.; the lender forfeits excess interest as penalty for usury.

Oklahoma—6 per cent.; under contract 10 per cent.; the lender forfeits double the amount of interest as penalty for usury.

Oregon—6 per cent.; under contract 10 per cent.; the lender forfeits principal and interest as penalty for usury.

Pennsylvania—6 per cent.; under contract 6 per cent.; the lender forfeits excess interest as penalty for usury.

Wyoming—8 per cent.; under contract in writing 12 per cent.; the lender forfeits interest as penalty for usury.

### Legal Reserve

See Bank Reserve, Reserve.

### Legal Tender

Money of a character which by law a debtor may require a creditor to receive in payment in the absence of any agreement or contract to the contrary. It is money legally tenderable in payment of debts, unless the contract calls for payment in some specified

kind of money, *e. g.*, gold coin of the present standard of weight and fineness. Thus, a contract calling for the payment of \$10,000 may be paid in any kind of money that is legal tender, unless the contract expressly stipulates to the contrary. Gold coin, silver dollars, United States notes and gold certificates are legal tender and a contract calling for the payment of \$10,000 is payable in any of these currencies. Contracts calling for payment in gold or silver dollars, or any other kind of money, must be paid in the kind of money specified, regardless of what may be legal tender. There are variations in the legal tender qualities of the different kinds of United States money. Fractional currency, for instance, has limited legal tender qualities. To compare the legal tender qualities of the various kinds of United States money, see that subject. (See Token Money.)

### Legal Tender Bonds

Same as *Currency Bonds* (q. v.).

### Legal Tender Notes

See United States Notes.

### Legal Tenders

See United States Notes.

### Legatee

See Legacy.

### Lei

The plural of *Leu* (q. v.)

### Lending Stocks

See Borrowed Stocks, Short Sale.

### Lepta

The plural of *Lepton* (q. v.).

### Lepton

A Greek coin. (See Foreign Moneys, table 2.)

### Lessee

See Lease.

### Lessor

See Lease.

### Letter of Advice

This term has two applications:

(1) A general term used in banking practice which refers to a letter of instructions

written by one bank to a customer (bank, firm, or individual) concerning some transaction mutually affecting them, *e. g.*, a letter requesting a correspondent bank to honor the checks of the former's customer, enclosing therein the customer's specimen signature, or letter to a foreign correspondent notifying it that a bill (fully described) has been drawn against it.

(2) A special class of remittance, whereby funds deposited by a first party are transferred (credited) to a second party for the use of a third. To illustrate the situation out of which a letter of advice might arise, suppose A. B. Company, brokers in New York City, have a branch office in Boston which keeps an account with the "Q" Bank of Boston, the latter being a correspondent of the "R" Bank of New York. The A. B. Company, however, does not have an account with the "R" Bank of New York. The most rapid, convenient, and economical method for the A. B. Company of New York to remit funds to its branch office in Boston is to deposit in cash, or by certified check, with the "R" Bank in New York the amount it wishes to make available with its branch office in Boston.

Two copies of letters of advice are made; the first entitled, "Letter of Advice" is addressed to the "Q" Bank in Boston, in which the A. B. Company, Boston Branch, has an account. This states, "We credit your account for \$..... which has been received from A. B. Company, New York, for the use of A. B. Company, Boston Branch." The second copy is a receipt containing the same information as the original, and is delivered to the A. B. Company, New York, the remitter. The funds may be made available the same day by a telegraphic advice, the letter of advice being forwarded by mail as a confirmation.

### Letter of Allotment

See Allotment Notice.

### Letter of Credit

See Letters of Credit.

### Letter of Hypothecation

See Hypothecation Certificate.

### Letter of Identification

A letter given by the selling bank to a purchaser of a traveler's letter of credit which introduces him to the banks abroad which have agreed with the selling bank to honor all drafts drawn against the letter of

credit. (See Identification, Traveler's Letter of Credit.)

### Letters

A name given to deposit slips accompanying remittances (checks, matured drafts and notes, coupons, cash, etc.), for deposit forwarded by an out-of-town depositor by mail. Letters are of two sorts—cash and collection. Cash letters are those for which the depositor receives credit for the amount of the total footing upon receipt. This amount is subject to reduction for such amounts as may be subsequently unpaid when presented. Collection letters are those for which the depositor instructs the bank to postpone crediting his account therefor until such items have been reported paid.

Cash letters can be distinguished from collection letters by the difference in their wording and by the fact that in the case of cash letters the list of items is footed, whereas, in collection letters, they are not. Cash letters are usually worded as follows: "We enclose for credit", or "We enclose for collection and credit." Collection letters are phrased, "We enclose for collection", "We enclose for collection and credit when paid", "Please report by number", "We enclose herewith for collection and credit items entered below. Please do not advise credit of items unless actually paid." The majority of items forwarded for collection bear collection numbers by which they are always referred to when their payment is advised.

### Letters of Administration

An instrument in writing granted by a probate (or surrogate) Court to a person appointed as administrator to settle the estate of a decedent who has left no will. These letters constitute the administrator's legal authority to act. In case the deceased person was a testator, but the person named in the will as executor is dead, incapable of acting, or declines to act, "Letters of Administration with the Will Annexed" are granted. (See Administrator.)

### Letters of Credit

In the broadest sense, letters of credit are instruments by which a bank substitutes its own credit for that of individuals, firms, or corporations, to the end that domestic and foreign trade may be more safely, economically, and expeditiously conducted. In the case, *American Steel Company, vs. Irving National Bank* (1920) 266 Fed., 41, the court defined a letter of credit as follows: "A let-



ter requesting one person to make advances to a third person on the credit of the writer is a letter of credit. These letters are general or special. They are general if directed to the writer's correspondents generally. They are special if addressed to some particular person."

From a functional standpoint, banks recognize two classes of letters of credit, viz., commercial and travelers', and the above definition comprehends both classes. Since *Traveler's Letter of Credit* (q. v.) are treated under that subject only additional definitions of commercial letters of credit are given here.

A commercial letter of credit is "an instrument by which a banker, for account of a buyer, gives formal evidence to a seller of its willingness to permit him to draw on certain terms and stipulates in legal form that all such bills will be honored, is what has come to be known as a commercial letter of credit."<sup>1</sup>

The following is a somewhat more complete definition: an instrument drawn by a bank, known as the credit-issuing bank (and eventually the drawee bank), in behalf of one of its customers (or in behalf of a customer of one of its domestic correspondents), known as the principal (who guarantees payment to the credit-issuing bank), authorizing another bank at home or abroad, known as the credit-notifying or negotiating bank (and usually the payee bank), to make payments or accept drafts drawn by a fourth party, known as the beneficiary, when such beneficiary has complied with the stipulations contained in the letter.

A common form of commercial letter of credit appears below:

Letter of Credit No. ....  
\$ ..... New York, May 1, 1923.  
To the A. B. C. Company,  
Paris, France.  
Gentlemen:

Please note that under instructions from our principals .....  
and for account of.....  
we hereby open a revocable (irrevocable) Credit in favor of .....  
to the extent of \$.....available in.....  
draft(s) on .....  
when accompanied by **BILLS OF LADING** for Merchandise.....

INVOICE TO READ: SILK CLOTH, SHIPMENT TO NEW YORK, and (other documents, if any).....

We hereby agree with bona fide holders that all drafts issued by virtue of this credit and in accordance with the above stipulated terms, shall meet with due honor upon presentation at the office of this bank if drawn and negotiated before.....19.....

It is a condition of the Credit that all shipments made herewith must fully meet all requirements, present and future, of our Government.

If the terms of the Credit are unsatisfactory to you in any detail, please communicate with your customers and have amended instructions sent to us.

This Credit will remain in force until..... unless previously revoked.

When drawing drafts against this Credit, or referring to it, please quote our number as above, and return this letter with the documents.

Terms of this Credit shall be interpreted in accordance with the regulations shown on the reverse side. (These are general rules adopted by the New York Bankers Commercial Credit Conference of 1920.)

Yours respectfully,  
Manager Foreign Department,  
.....Bank.

Analyzed into its component elements it will be seen that a commercial letter of credit consists of (1) heading, (2) address to the beneficiary, (3) promise to honor drafts, (4) tenor of drafts (5) amount, (6) description of required documents, (7) nature of shipment, (8) expiration date, (9) privilege of cancellation, and (10) supplementary details, *e. g.*, issue date, number, disposition of letter, and interpretation.

Commercial letters of credit are classified as to:

1. Direction of shipment.
  - a. Export
  - b. Import.
  - c. Domestic.
2. Security.
  - a. Documentary.
  - b. Clean.
3. Tenor of drafts drawn thereunder.
  - a. Sight.
  - b. Time.
4. Form of Letter.
  - a. Straight.
  - b. Revolving.

5. Form of Currency.
  - a. Dollars.
  - b. Sterling.
  - c. Continental currency.
  - d. Asiatic currency.
6. Privilege of Cancellation.
  - a. Irrevocable-confirmed.
  - b. Irrevocable-unconfirmed.
  - c. Revocable-unconfirmed.
7. Payment by Principal.
  - a. Paid.
  - b. Guaranteed.

None of the above classifications is mutually exclusive. A letter of credit may, for instance, arise out of an import transaction, and be straight, documentary, 60 days sight, guaranteed, revocable-unconfirmed, and payable in dollars.

An export letter of credit is one arranged to finance the export of merchandise, while an import letter of credit finances the import of merchandise, etc.

A documentary letter of credit is supported by a bill of lading and relative papers, while a clean credit is not.

A sight letter of credit is one in which the draft drawn thereagainst is payable on presentation, while a time or acceptance credit is one in which the draft is payable only when the stipulated number of days after presentation for acceptance has elapsed.

A straight letter of credit is one issued to finance the shipment of specified merchandise and thereupon becomes void, while a revolving letter of credit automatically renews itself for the original stipulated amount each time a draft is drawn thereagainst, and does not exhaust itself until the expiry date.

A dollar letter of credit is one in which the amount is specified in dollars and in which the draft drawn thereagainst must be drawn in dollars, while a sterling letter of credit is one in which the draft drawn thereagainst is in sterling currency, etc.

A revocable letter of credit is one in which the credit-issuing bank reserves the right to rescind its obligation to honor drafts drawn by the beneficiary by the phrase "good till cancelled" or other similar expression. An irrevocable letter of credit is one in which the credit-issuing bank waives the right to revoke the credit prior to the expiry date, unless the consent of the beneficiary is obtained. The irrevocable letter of credit may be strengthened by having the notifying bank in the exporter's country add its own unqualified assurance that the credit-issuing bank's obligation will be performed, and

that if the latter refuses to honor the draft drawn against the credit, the notifying bank will pay or accept in any event. Such a letter of credit is known as irrevocable-confirmed. But if the notifying bank merely transmits the issuing bank's obligation to the beneficiary without confirming the latter's undertaking, thereby not making the issuing bank's commitment its own, then the letter of credit is called irrevocable-unconfirmed.

A paid letter of credit is one in which funds are deposited by the principal (buyer) with the credit-issuing bank at the time of issue, but this is of rare occurrence. A guaranteed letter of credit, which is the usual type, is one in which the principal guarantees payment of the amount of the draft to the credit-issuing bank at its maturity. (See Guaranty.)

In issuing letters of credit a bank is not called upon to part with cash, unless it discounts its own acceptances drawn under the terms thereof. The liability created in the issue of letters of credit is not restricted, but the Federal Reserve Act places a definite limitation upon the amount which a member bank may accept under such credits. (See Limitations on Acceptance Credits.)

From a review of British decisions on commercial letters of credit the following principles may be adduced<sup>1</sup>:

1. A letter of credit is not a negotiable instrument.
2. It does not create a trust fund in favor of the beneficiary.
3. An issuer of a letter of credit may not dishonor drafts presented by a negotiating bank under a clean irrevocable letter of credit if all the terms of the credit are fulfilled.
4. An issuer may dishonor bills drawn in violation of the conditions specified in a documentary letter of credit.
5. The negotiator is not liable for the genuineness either of goods or documents.
6. The issuer is responsible to the party requesting the credit for the observance of the conditions by the beneficiary.
7. The contract between the issuer and the beneficiary is entirely independent of the contract of sale between the buyer and seller, and the issuer can not, because of the seller's breach of contract of sale, refuse to honor drafts which comply with the terms of the letter of credit. (See Acceptance Credit, Traveler's Letter of Credit.)

<sup>1</sup> Federal Reserve Bulletin, February, 1921, p. 162.



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**Letters Testamentary**

An instrument in writing granted by a probate (or surrogate) Court, or other official authority having jurisdiction over the probate of wills, empowering the executor named in a will to dispose of the estate in accordance with its terms. Letters testamentary make it known that the will in question has been properly proved and that the estate is in order to be settled. (See Executor, Will.)

**Leu**

A Roumanian coin. (See Foreign Moneys, table 2.)

**Lev**

A Bulgarian coin. (See Foreign Moneys, table 2.)

**Leva**

The plural of *Lev* (q. v.)

**Levee Bonds**

Bonds issued by a municipality or levee district, usually the latter, the proceeds of which are used for the purpose of constructing or maintaining levees for the reclamation or protection of land from submergence by water. Levee bonds belong to the general class of bonds known as reclamation issues, *e. g.*, drainage bonds, reclamation bonds, irrigation bonds, etc. Wherever they are the direct obligation of a city or town, they rank in investment value with the other issues of such municipality. When issued by a levee district, their investment status is similar to that of any other type of district bond. The investor should investigate the wealth of the issuing jurisdiction, the necessity for the construction, the property values added by the property, and the technological feasibility of the levee. As a class, levee bonds have proved fairly satisfactory, and yield a high rate of return. Most of these bonds have been issued by levee districts in the South, and particularly in the Mississippi valley.

**Ley**

Another spelling for *Lei* (q. v.)

**Liabilities**

Obligations: The aggregate of debts or sums of money owed by an individual, firm or corporation. Liabilities usually are classified as current, fixed, and deferred.

As to preference, liabilities may be separated in the following order: (1) liabilities to preferred creditors; (2) liabilities to secured creditors; (3) liabilities to unsecured or general creditors; (4) contingent liabilities; (5) liability (or accountability) to stockholders or other owners.

The chief liabilities of a bank are deposits, circulating notes, borrowings from Federal Reserve or other banks, liabilities on account of letters of credit and acceptances. (See Capital Liabilities, Contingent Liabilities, Current Liabilities, Fixed Liabilities, Limitation on Total Indebtedness of National Banks.)

**Liability Insurance**

A form of insurance provided to indemnify employers against losses resulting from accidents to employees, and damages for which the employer is legally liable.

Most of the states have enacted Workmen's Compensation Laws which require industrial concerns to provide for the insurance of their employees against accident. Usually employers may elect to provide an insurance fund created out of earnings, to take out a liability insurance policy with an insurance company, or to insure with the State insurance board.

**Liability Ledger**

A subsidiary ledger maintained in the loan and discount department of a bank in which the notes, acceptances, and bills of exchange discounted for, and purchased from, each borrower are recorded. Accounts are classified alphabetically, and from this record it is possible to ascertain by reference to the balance column, the net liability of each borrower (1) on his own paper; (2) on paper which has been indorsed for value; (3) on paper which he has made and has been indorsed for value by others; and (4) on paper which he has indorsed as guarantor.

**Liberty Bonds**

A name given to bonds issued by the United States in 1917, 1918, and 1919, to finance our participation in the world war, and to raise funds to lend to our allies. Four Liberty Bond issues and one Victory Loan issue were brought out between May 14, 1917, and April 21, 1919, the five issues (ten

issues including the converted issues) aggregating approximately \$21,478,357.

The complete details of these issues are given in the accompanying table:

### Libra

See Foreign Moneys—Peru.

### License

In the "blue sky" states investment bankers are required to take out a license from the state banking authorities as a condition to the conduct of their business.

### Lien

The right to hold any property given as a pledge or security until the debt which it secures is paid. To constitute a lien the debt must be enforced by law, *e. g.*, a mortgage.

Liens are specific and general. A general lien comprises all the property belonging to the debtor. A specific lien comprises only the particular property subject to the lien, as specified in the instrument acknowledging the debt. A mechanic's lien is a specific lien, because it affects only the property upon which the laborer has expended material and labor.

Considerable confusion arises in the use of the terms, prior lien, first lien, junior lien, second lien, etc. A prior lien is not necessarily a first lien; it is simply one that takes precedence over others. A junior lien is not necessarily a second lien; it may be any lien other than the first.

### Lienor

One who holds a *Lien* (q. v.)

### Life Annuity

See Annuity.

### Life Estate

When a person has possession of property and its income for life, according to the provisions of a trust deed or will, he is known as the life tenant and has a life interest in the estate. At the death of the life tenant, the property may either revert to the grantor or his estate, or become the possession of the *Remainder Man* (q. v.)

### Life Insurance

See Insurance.

### Life Interest

See Life Estate.

### Life Tenant

See Life Estate.

### Light Coin

Coin reduced by natural abrasion below the standard weight fixed by law. Loss in weight of gold coins, if in excess of the limit of tolerance provided by law, reduces its legal tender value in proportion to such loss in weight. (See Light Gold, Tolerance.)

Loss in weight of fractional silver, nickel, and copper coins does not affect their value as legal tender since these coins are worth less as metal than as coin. (See Token Money.)

### Light Gold

Gold coins which have been reduced in weight. These are legal tender if the reduction is not in excess of the limit of tolerance provided by law. The Treasury Department provides for the redemption of gold coins reduced in weight through abrasion within the limit of tolerance provided by law, as follows: "Any gold coins of the United States, if reduced in weight by natural abrasion, not more than one-half of 1 per cent. below the standard weight prescribed by law, after a circulation of 20 years, as shown by the date of the coinage, and at a ratable proportion for any period less than 20 years, shall be received at their nominal value by the United States Treasury and its officers under such regulations as the Secretary of the Treasury may prescribe for the protection of the Government against fraudulent abrasion or other practices \* \* \* Any gold coin in the Treasury of the United States when reduced in weight by natural abrasion more than one-half of 1 per cent. below the standard weight prescribed by law, shall be recoined." (Revised Statutes, Sec. 3585.)

Japan redeems light weight gold coin at full value. (See Tolerance.)

### Limit

A definite price fixed by a customer in giving an order to purchase or sell securities (or commodities) to a broker for execution, and which the broker must not go over if a purchase, or under if a sale. (See Orders.)

### Limitations

See Limitations on Acceptance Credits, Limitations on Bank Loans, Limitations on Investments, Limitations on the Total Indebtedness of National Banks, Statute of Limitations.

## UNITED STATES LIBERTY AND

	3½s	4s		
	1st LIBERTY LOAN 3½s 15-30 Year Bonds	1st LIBERTY LOAN— CONVERTED 4s 15-30 Year Bonds	2ND LIBERTY LOAN 4s 10-25 Year Bonds	1st LIBERTY LOAN— CONVERTED 4½s *Issue of May 9, 1918 15-30 Year Bonds
Present Status	Issued \$2,000,000,000.		Issued \$3,808,766,150.	
Taxation Feature (Summary Below)	Exempt from all taxes (except estate and inheritance taxes).	Notes A, B, F and G.	Notes A, B, F and G.	Notes A, B, C, F and G.
Date of Issue and Maturity	June 15, 1917. June 15, 1947.	November 15, 1917. June 15, 1947.	November 15, 1917. November 15, 1942.	May 9, 1918. June 15, 1947.
Callable For Payment	Redeemable at government's option on or after June 15, 1932.	Redeemable at government's option on or after June 15, 1932.	Redeemable at government's option on or after Nov. 15, 1927	Redeemable at government's option on or after June 15, 1932.
Interest Payments	June 15th and Dec. 15th.	June 15th and Dec. 15th.	May 15th and Nov. 15th.	June 15th and Dec. 15th.
Conversion Privilege	Convertible into any higher rate bond issued during the war (except short term loans) within six months from date of the issue of such higher rate bond. The date of the termination of the war shall be date fixed by proclamation of the President.	Convertible into the First Converted 4½s if application is made before Nov. 9, 1918. This privilege to convert has been extended and renewed.	Convertible into Second Converted 4½s if application is made before Nov. 9, 1918. This privilege to convert has been extended and renewed.	Not convertible into any future issue.
Sinking Fund	Note H.	Notes E and H.	Notes E and H.	Notes E and H.

Note A.—Exempt from state and local taxes and from normal income tax, but subject to estate, inheritance, super-tax, excess and war-profits tax on all incomes and earnings above the normal exemption (incomes from holdings of \$5,000 bonds are tax exempt except for estate and inheritance taxes).

Note B.—In addition to tax exemption in Note A, income from not more than \$45,000 bonds of this issue or a smaller amount of bonds of this issue not exceeding 1½ times the amount of the Fourth Liberty Bonds held by the owner is exempt until two years after the war from surtaxes, excess and war-profits taxes, provided said Fourth Loan Bonds were originally subscribed for and have been continuously owned by the tax payer up to the date of his tax return.

Note C.—Bonds owned continuously for at least six months prior to one's death are acceptable at par and accrued interest in payment of any estate and inheritance taxes imposed by the United States under any present or future law.

Note D.—In addition to the tax exemption in Note A, interest on not to exceed \$30,000 bonds of this issue is exempt until two years after the war from surtaxes, excess and war-profits taxes when owned by one individual, partnership, corporation or association.

Note E.—The Secretary of the Treasury is authorized from time to time until the expiration of one year after the termination of the war to buy bonds of this issue to the extent of 5% of the original issue during the 12 months' period beginning on the date of issue and in each 12 months' period thereafter to the extent of 5% of the amount outstanding at the beginning of the period, the average cost of bonds purchased in any such 12 months' period not to exceed par and accrued interest.

Note F.—In addition to the tax exemption in Note A, income received on and after January 1, 1919, on not to exceed \$30,000 bonds in the aggregate is exempt until the expiration of five years after the war from surtaxes, excess and war-profits taxes.

Note G.—In addition to the tax exemption in Note F, income received on and after January 1, 1919, on not to exceed \$20,000 bonds in the aggregate is exempt from surtaxes, excess and war-profits taxes, extending through the



VICTORY LOAN WAR BONDS

4½s				3½s and 4½s
1ST LIBERTY LOAN— 2ND CONVERTED 4½s <i>*Issue of Oct. 24, 1918 15-30 Year Bonds</i>	2ND LIBERTY LOAN— CONVERTED 4½s <i>10-25 Year Bonds</i>	3RD LIBERTY LOAN 4½s <i>10 Year Bonds</i>	4TH LIBERTY LOAN 4½s <i>15-20 Year Bonds</i>	VICTORY LIBERTY LOAN <i>3-4 Year Notes</i>
Available by converting 3½s before April 24, 1919.		Issued \$4,176,516,850.	Issued \$6,993,073,250.	Issued \$4,500,000,000.
Notes A, C, D, F and G.	Notes A, B, C, F and G.	Notes A, B, C, F and G.	Notes A, C, D, F and G.	Notes I and J. Note C, as to 4½s only.
October 24, 1918. June 15, 1947.	May 9, 1918. November 15, 1942.	May 9, 1918. September 15, 1928.	October 24, 1918. October 15, 1938.	May 20, 1919. May 20, 1923.
Redeemable at government's option on or after June 15, 1932.	Redeemable at government's option on or after Nov. 15, 1927.	Not redeemable until maturity.	Redeemable at government's option on or after Oct. 15, 1933.	Redeemable at government's option on or after June 15, 1922, upon not less than four months' notice.
June 15th and Dec. 15th.	May 15th and Nov. 15th	September 15th and March 15th.	April 15th and October 15th.	December 15th and June 15th.
Not convertible into any future issue.	Not convertible into any future issue.	Not convertible into any future issue.	Not convertible into any future issue.	The 3½s and 4½s are convertible and reconvertible each into the other after July 15, 1919, but before maturity or call for redemption.
Notes E and H.	Notes E and H.	Notes E and H.	Notes E and H.	Notes E and H.

life of the Victory Notes, provided such bonds do not exceed three times the principal amount of Notes of the Victory Liberty Loan originally subscribed for by such owner and still held by him at the date of his tax return.

Note H.—The Victory Loan Act created a sinking fund to retire all Liberty bond and note issues at maturity, or to redeem and purchase them before maturity at an average cost not to exceed 100 and accrued interest. Beginning July 1st, 1920, and for each fiscal year thereafter until all such bonds and notes are redeemed, there is appropriated for the purposes of the sinking fund an amount equal to the sum of (1) 2½% of the aggregate amount of bonds and notes outstanding on July 1st, 1920, less an amount equal to the par amount of any obligations of foreign governments held by the United States on July 1st, 1920, and (2) the interest which would have been payable on the bonds and notes purchased or redeemed or paid out of the sinking fund during such year or in previous years for which the appropriation was made.

Note I.—The 3½s are exempt both as to principal and interest from all taxation (except estate and inheritance taxes) now or hereafter imposed by the United States, any State or any of the possessions of the United States, or by any local taxing authority.

Note J.—The 4½s are exempt both as to principal and interest from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except estate or inheritance taxes, and graduated additional income taxes, commonly known as surtaxes, and excess profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations or corporations.

\* The two issues of First Converted 4½s differ only to the extent that the issue of October 24th is tax exempt as to the interest on not to exceed \$30,000 bonds regardless of one's subscription to the Fourth Loan, whereas the issue of May 9th is tax exempt as to the interest on not to exceed \$45,000 bonds in connection with one's subscription to the Fourth Loan.

**Limitations on Acceptance Credits**

The Federal Reserve Act places a limit upon the amount of acceptances which a national bank can make in the aggregate and by special permission of the Federal Reserve Board, this may be increased to an amount equal in the aggregate to 100 per cent. of capital and surplus, except that the aggregate of acceptances against domestic transactions in no event may exceed 50 per cent. of capital and surplus. No acceptances are permitted to be made for more than six months. Originally, to be eligible for re-discount, an acceptance was limited to a maturity of three months. In recognition of the fact that three months are not always sufficient in completing foreign transactions, especially Far Eastern shipments, the Federal Reserve Board has extended eligible maturities to six months.

The amount accepted for one name must not exceed 10 per cent. of a National bank's capital and surplus, unless secured by collateral growing out of the same transaction as the acceptance, and then security must remain with the bank during the entire time the acceptance is outstanding.

Acceptances for the creation of dollar exchange are not permitted except by special permission of the Federal Reserve Board. Such acceptances must not exceed more than 10 per cent. for any one name, and in the aggregate not more than 50 per cent. of the capital and surplus of the bank. Acceptances for dollar exchange are in addition to the amount allowed for acceptances in foreign currencies. Dollar acceptances must have a maturity not greater than three months' sight.

The limitations imposed upon state banks for acceptances in the aggregate and to one customer vary in different states, but in general, follow those imposed upon National banks. Where the state is a member of the Federal Reserve system, the same regulations as apply to National banks, govern. (See Acceptance Credit, Bank Acceptance.)

**Limitations on Bank Loans**

The amount which a National bank may legally lend to any one person, company, corporation, or firm (including in the liability of a company or firm, the liability of the component members thereof) in accordance with the provisions of Section 5200 of the National Bank Act, as amended, are stated

below. These amounts are given in percentages of the paid-up and unimpaired capital stock and surplus of the lending bank. (Surplus does not include undivided profits.)

Character of Loans.	Percentage Loanable.
1. Loans on personal security whether one name, two name, or guaranteed, or if secured by collateral other than that hereafter mentioned .....	10%
2. Bills of exchange or drafts drawn in good faith against actually existing values, including:	
a. Drafts and bills of exchange secured by shipping documents conveying title to goods shipped or in process of shipment.	
b. Eligible bankers' acceptances..	No limit
3. Commercial or business paper owned by the person, company, corporation, or firm negotiating the same .....	No limit
4. Notes secured by shipping documents, warehouse receipts, or other documents conveying or securing title covering readily marketable, non-perishable staples, provided the property securing the obligation is not at any time less than 115 per cent. of the face amount of the note; the property is fully covered by insurance, and that such a loan is not made for more than six months in any consecutive twelve months .....	15%
If the full amount under No. 1 is not loaned then the amount loaned under No. 4 may be increased by the unused portion under No. 1. The amount loaned under No. 1 and No. 4 may equal but not exceed 25 per cent., but in no case must the amount loaned under No. 1, exceed 10 per cent.	
5. Notes secured by not less than a like face amount of bonds or notes issued by the United States Government since April 24, 1917, or by certificates of indebtedness of the United States.....	10%
The sum loanable under No. 1 and No. 5 may equal but not exceed 20 per cent.	

Some examples showing the amount which a National bank may lend to any one customer at one time expressed in terms of percentage of the bank's capital and surplus follow:

Character of Loan.	Amount Loanable.				
	Illustration.				
	1.	2.	3.	4.	5.
1. Straight Loan..10%	5%	5%	2%	0%	
4. Notes secured by warehouse receipts, etc.....	15	20	15	23	15
5. Notes secured by 100% United States obligations .....	10	10	15	10	20
Total.....	35%	35%	35%	35%	35%

From the foregoing it will be seen that excepting those loans upon which no limit is imposed by law, the maximum amount which a National bank may loan to any one customer, when appropriate collateral is given, is 35 per cent.

The limitations on the loans of state banks and trust companies are somewhat more lenient than in the case of National banks, but vary in the different states.

**Limitations on Investments**

National banks are restricted to the purchase of bonds for investments. They are not permitted to invest in stocks except Federal Reserve Bank stock (which is required), and the stock of foreign banking corporations up to 10 per cent. of the capital and surplus of the subscribing bank, which is optional. The limitations on the investments of state banks vary in the different states, but in general, follow those imposed upon National banks. In many states, banks are allowed to own or invest in stock of safe deposit and mortgage companies.

The limitations upon the investments of trust companies are more lenient than in the case of National and state banks. Besides investing in bonds, they are usually permitted to invest in stocks, being limited, however, to a certain percentage of their combined capital and surplus. (See Legal Investments for Savings Banks, Legal Investments for Trust Funds.)

**Limitations on the Total Indebtedness of National Banks**

The total indebtedness of a National bank is limited to an amount not exceeding 100 per cent. of its unimpaired capital stock except for demands of the following nature: (1) circulating notes; (2) deposit liabilities; (3) liabilities to stockholders, including surplus, undivided profits, etc.; (4) outstanding cashier's checks; (5) liabilities incurred under the provisions of the Federal Reserve

Act (bills payable and rediscounts); (6) liabilities incurred under the provisions of the War Finance Corporation Act; (7) liabilities created by the indorsement of accepted bills of exchange payable abroad, actually owned by the indorsing bank and discounted here or abroad.

Elsewhere in the national banking laws, it is stated that the amount of circulating notes shall not exceed the par value of the capital stock. Thus the law itself is contradictory. By a ruling of the Comptroller of the Currency, however, a National bank is not permitted to issue circulating notes in excess of its capital (not including surplus and undivided profits).

**Limitations, Statute of**

See Statute of Limitations.

**Limited Company (Corporation)**

A corporation in which the stockholders are limited in their liability to debtors to the amount represented by the par value of the stock they own. If the debts of a corporation upon liquidation exceed the sum realized through the sale of the assets, the creditors must bear the loss in proportion to their claims. The stockholders cannot be called upon to make good the deficit. (See Double Liability.)

Limited companies are to be distinguished in this respect from partnerships in which the partners are individually liable for all debts contracted by the partnership and whose personal property may be taken to satisfy such debts. A partnership and joint-stock company provide unlimited liability for the claims of creditors.

**Limited Legal Tender**

See Legal Tender, Token Money, United States Money.

**Limited Liability**

The liability of a limited corporation, which extends no further than to the amount of the issued capital stock, except in cases of corporations having double liability, *e. g.*, National banks. (See Double Liability, Limited Company.)

**Limited Order**

A buying or selling order lodged with a broker for execution at a specified price, and which will not be executed if the price is not reached, but which may be executed at a price more favorable to the customer, *e. g.*, "Buy 100 shares of United States Steel at 95." (See Orders.)



**Limit of Tolerance**

See Light Gold, Tolerance.

**Limping Standard**

A term used to describe the monetary system of a country which, although the gold standard has been formally or informally adopted and the free coinage of silver has been suspended, nevertheless retains silver coins in circulation with legal tender power, in order to supply a sufficient volume of circulating media. The limping standard is in reality a survival of the era of *Bimetallism* (q. v.) in which gold and silver were maintained as a joint standard at a fixed coinage rate. The United States and the countries comprising the Latin Union, once having a bimetallic standard and still retaining silver coins in circulation, may be said to possess a limping standard. For instance, the silver coins of the United States, although worth less as metal than as coin, limp along on an equality with gold coins, because the quantity in circulation is definitely fixed and limited, representing but a fraction of the amount of gold coin.

**Line**

See Deposit Line, Line of Credit.

**Line of Credit**

The maximum or amount which a person or concern is entitled to borrow from a bank at any given time, or normal limit of accommodation, also called the limit of credit, or credit line. It is the total credit force, or potential credit balance at the disposal of a borrowing customer in return for which the customer is required to maintain proportional balances, prove to be an acceptable credit risk, and otherwise satisfactory as an account. The amount of a credit line is not definitely fixed, but varies from time to time, according to the financial standing of the customer, as shown by submitted financial statements, the bank's loanable resources, and general money and trade conditions.

While a bank usually fixes a line of credit for its borrowing customers, it is usually reluctant absolutely to agree to provide for this amount because changing conditions, either in the affairs of the customer or the bank, may make it inadvisable, if not impossible, to grant the line agreed upon. In other words, while a bank is morally obligated to insure a line of credit agreed upon, it is not legally bound to do so. Any line of credit established is predicated upon

the continuance of the same management and maintenance of a financial standing as good or better than that which was in existence at the time it was established.

Ordinarily, a bank is able to provide its customers with as much credit as they are entitled to have in proportion to the value of their accounts and financial condition. For this reason, the well established and conservatively conducted concern, having good banking connections, should never experience difficulty in obtaining all the credit it requires.

(See Credit, Credit Risk, Statement Analysis, Twenty Per Cent. Rule.)

**Line of Deposit**

See Deposit Line.

**Line of Stocks**

A term which refers to commitments made on the long or short side of the market systematically bought or sold respectively on a scale. (See Scaling.)

**Liquid Assets**

Among commercial and industrial concerns, liquid assets are equivalent to *Current Assets* (q. v.). Among banks, liquid assets are those which are immediately available as cash, or which can be quickly converted into cash, *e. g.*, call loans, amounts due from banks, exchanges for clearing house, loans eligible for rediscount, and securities enjoying a ready and reliable market. It does not include time loans ineligible for rediscount, securities not enjoying a ready market, banking premises, etc.

**Liquidating Market**

A market in which selling in volume occurs, whether as the result of a concerted movement to reduce prices thought to be inflated, or merely to take profits. (See Liquidation.)

**Liquidation**

This term has two meanings:

(1) Cash realization; the selling of holdings in stocks, bonds or commodities, either to take profits, or in anticipation of, or to prevent losses due to, lower prices. Liquidation may be forced or voluntary. Frequently, liquidation is referred to as extending over a period of time. In this sense, liquidation forms that part of the business cycle which is characterized chiefly by falling prices, business failures, and business in-

activity. (See Business Cycle, Forced Liquidation.)

(2) The termination or winding up of a business by the conversion of its assets into cash, and distribution of the proceeds, first to the creditors in their order of preference (See Liabilities), and the remainder, if any, to the owners in proportion to their holdings.

### Liquidator

A person appointed by a court to terminate the affairs of a business. (See Liquidation.)

### Liquidity

A term referring to that condition of an individual or business a high percentage of the assets of which can be quickly converted into cash without involving any considerable loss by accepting sacrifice prices. Liquidity implies a high degree of currentness and financial solvency, *i. e.*, that the value of the current assets is well above that of the current liabilities. (See Financial Solvency, Working Capital.)

### Lira

See Foreign Moneys—Italy.

### List

An expression used to refer to the total of securities traded on a stock exchange; in other words, a short term for *Listed Securities* (q. v.).

### Listed Securities

Securities which have been approved and admitted or listed on a stock exchange. Each stock exchange has certain rules which must be complied with before a security is admitted to trading, and usually a stock exchange is as exclusive in admitting stocks as it is members.

On the New York Stock Exchange a committee known as the "Committee on Stock List" acts upon all applications for listing, but its decisions are subject to review by the governing committee. There are three important tests for admission of new securities. In the first place, the corporation seeking to list its securities must be seasoned, *i. e.*, must have been in operation over a sufficiently long period to have demonstrated its essential character, its earning capacity, and the moral integrity and business capacity of its officers of administration. The New York Stock Exchange is not a trying-out place for new and untested securities.

Secondly, the corporation's records and reports bearing upon its financial condition and earning power must be made public for the benefit of investors and speculators.

Corporations whose stocks or bonds are listed are required to publish their balance sheets, earning statements, announcements of directors' and dividend meetings and opening and closing of transfer books, and it is recommended that they make available to the public any additional information which might serve as a basis for the formulation of an intelligent opinion on the value of a security, *e. g.*, current production rate, current sales, pending orders, new contracts, financing plans, etc.

Finally, the issue must be sufficiently large, widely held and traded in to attract attention. No small or inconspicuous corporation, or one whose stock is closely held by a relatively few individuals would be successful in having its stock admitted.

Certain erroneous impressions are current with regard to the listing of securities. Listing is no guarantee of the worth of a security, *e. g.*, that it is safe or will not fluctuate in value. It does not mean that such stocks will bear dividends, maintain their dividend rate, or not decline in value. Neither does it mean that bonds will certainly be paid, or that interest will not be defaulted. The stock exchange assumes no responsibility and affords no guaranty.

The advantages of listing, however, are incalculable. The requirement of the publication of reports of financial condition and of earnings increases publicity and therefore permits accurate knowledge of equities in earnings and of business conditions leading to proper estimates of security values. It prevents a declaration of secret dividends, since due notice must be given for all dividend payments, new stock issues, etc. It also prevents forgeries and over-issue of stock. The stock exchange does guarantee the physical genuineness of the securities traded in and forces machinery upon corporations to prevent frauds in false certificates and over-issues. Thus, certificates must be engraved on a tested kind of safety paper approved by the exchange and each corporation must maintain a separate agent who is responsible for transfers, and a registrar who is responsible for over-issue.

Finally, listing increases the marketability and collateral value of securities, making it easier to borrow on them and giving them a greater hypothecary value. It is only listed securities that are usually available as stock exchange collateral.

**Listing**

The admission of a security on a stock exchange. (See Listed Securities.)

**Little Board**

See Board.

**Live Stock Loans**

See Cattle Loans.

**Living Trust**

A form of trust by which the person who creates it (known as the trustor, donor, creator, or grantor), transfers title to certain property (securities, real estate, etc.) to a trustee with instructions to apply the income according to the terms of the trust agreement. The agreement may call for reinvestment of the income, or for a distribution of the income in whole or in part to designated beneficiaries, and often to the trustor himself. The trustee renders a statement of account to the trustor at stated intervals.

This form of trust, also known as a voluntary trust, differs from the ordinary trust in that it becomes operative during the lifetime of the creator. It may be so drawn as to render unnecessary the making of a will, or in case only a part of the creator's property is placed in trust, his will need dispose only of the remainder.

Living trusts may be made revocable and subject to change, or irrevocable and not subject to change, even by the creator himself. These trusts make it possible for persons of means to retire from the active management of their businesses by being relieved of all details in connection with the administration of the affairs of their property. Thus, the trustee becomes bound to maintain the property intact, to collect all rents, interest, dividends, and profits, and to remit the proceeds to the beneficiary, wherever he may reside. (See Trusts.)

**Lloyd's**

An association of English insurance underwriters, doing business in premises in the Royal Exchange, London. Originally a small market in Edward Lloyd's coffee house, it has now become an enormous association whose members, numbering more than one thousand, had an aggregate peacetime premium income of thirty million pounds. While this institution, now known all over the world, specializes in the underwriting of marine risks and such business as is incidental thereto, *e. g.*, publication of

Lloyd's Register, there is probably no class of calculable risk, however fantastic, which these underwriters will not insure.

Each member of Lloyd's is required to deposit with the Committee of Lloyd's £5000 as a guarantee for each class of insurance that he writes, and is responsible up to the entire amount of his fortune for paying claims. Underwriters must be worth at least £100,000 in order to furnish this financial guarantee.

The chairman of Lloyd's attributes its high prestige to four causes: (1) its policies are first-class security; (2) reputation which has been gained for prompt, just and liberal settlement of all straight-forward claims; (3) the market is readily adaptable to new risks and the changing needs and conditions of business, and (4) is the center of the finest shipping news service that the world has ever possessed, and is connected by tradition and by name with the great institution known as Lloyd's Registry.

Lloyd's Register has become the recognized information bureau for all the shipping of the world. This register contains a list of the ships of all nations, giving their names, and such descriptive details as length, breadth, depth, displacement, cargo space, horsepower, country of registry, etc.

Lloyd's now have a representative or agent in every principal seaport of the world who forwards information continually in regard to vessel movements, disasters, and storms, to London. These agents do not themselves place insurance, but are representatives of Lloyd's organization only, and are appointed to look after Lloyd's interests, collect information, assist in the adjusting or appraising of losses, etc.

**Load Up**

An expression to indicate the purchase of a security or commodity to the limit of one's financial capacity for speculative purposes. To be loaded up means to be "long" of an undesirable security or commodity which cannot be easily disposed of except at a loss.

**Loan**

See Loans.

**Loan and Trust Company**

See Trust Company.

**Loan Capital**

That portion of the capital of a corporation furnished by long and short term credi-



tors, *e. g.*, bondholders, noteholders, banks, etc., evidenced by instruments having definite maturities, as distinguished from share capital which is contributed by the stockholders.

### Loan Certificates

See Clearing House Loan Certificates.

### Loan Contract

See General Loan and Collateral Agreement.

### Loan Crowd

An expression used to refer to brokers who desire either to borrow or lend stocks. (See Borrowed Stocks, Short Sale.)

### Loan Department

The department of a bank, which under the direction of the loan officers, executes the clerical details in connection with loan transactions. This involves the preparation of notes for signature, examination of collateral or guaranty contracts, and the proper keeping of the loan records. Loans usually are recorded on a card, and in the loan register, loan ledger, maturity tickler, and rate sheet. The loan department is also charged with seeing that the collateral loans are adequately margined, that notes are presented for collection on the date of maturity, that collateral comparisons are made periodically, that interest statements are promptly forwarded, and with making substitutions in collateral at the request of stock exchange borrowers.

### Loan Ledger

See Liability Ledger.

### Loan Market

See Call Money Market, Money Market, Rediscount Rate.

### Loan Rates

See Call Money Market, Money Market, Rediscount Rates.

### Loan Register

A journal or register in which time loans are entered in the order in which they are granted. Since time loans usually are consecutively numbered, entries are in numerical as well as chronological order. This register is an original entry record and contains the complete details of the terms of each loan. (See Bills Discounted Register.)

### Loans

The letting out or renting of sums of money by a lender to a borrower to be repaid with or without interest. Long term loans covering a period of years, are usually evidenced by bonds, debentures, or certificates of indebtedness. Short term loans are evidenced by notes, bills of exchange, and acceptances.

There are numerous possible classifications of bank loans, some of the most important of which are as follows:

1. According to maturity.

(a) Demand loans, terminable at the option of either the lender or borrower.

(b) Time loans, which have a fixed or determinable maturity.

2. According to character of borrower.

(a) Commercial loans—made to business concerns (producers, manufacturers, wholesalers, jobbers and retailers), to furnish working capital for financing the purchase of commodities in the various stages of production and distribution. These loans are usually seasonable or automatic in character, and are required only temporarily. Commercial loans are regarded as self-liquidating for the reason that they are discharged through the proceeds of sale of the commodities financed. Such loans, therefore, usually represent investments in current or quick assets, which in the ordinary course of business, are quickly converted into cash. Short-term loans, usually ranging from 30 days to six months, the majority having maturities of three and four months, constitute the majority of the assets of a commercial bank.

(b) Stock exchange or brokers' loans—made to stock exchange brokers upon stock exchange collateral equal to from 120 per cent. to 130 per cent. of the face of the loan, who in turn lend the proceeds to speculators operating with margin accounts.

(c) Speculative loans—made to individuals for trading or speculating in stocks, bonds, or commodities. Such loans are usually collateralized with ample margins.

(d) Farm or farm mortgage loans made to farmers to finance the purchase of improved farm land and equipment, or to pay off existing indebtedness.

(e) Agricultural loans—made to farmers for the purpose of financing the planting or harvesting of crops, or the raising and marketing of live stock. Due to the time involved in these pursuits, these loans are of longer maturities than commercial loans. The Federal Reserve Act now permits loans

made upon agricultural paper, with a maturity not exceeding nine months (six months before the Agricultural Credit Act of 1923 was passed), to be eligible for rediscount at the Federal Reserve banks. There are several sub-divisions of agricultural loans, such as cattle loans, cotton loans, grain loans, etc.

(f) Real estate or mortgage loans—made to buyers of real estate on a long term basis. Formerly, under the National Bank Act, National banks were not allowed to make loans upon real estate. Lending upon real estate mortgage security was regarded as a function of savings banks, since their deposits are accepted on a time basis and the right of 30 to 60 days' notice for withdrawal of deposits may be exercised when necessary. By an amendment of the Federal Reserve Act (September 7, 1916), National banks not situated in a central reserve city are empowered to make loans secured by urban real estate or farm land not exceeding one-third of their time deposits, and not to exceed 50 per cent. of the value of the mortgaged property. Loans upon urban real estate are limited to one year, and upon farm land to five years.

(g) Consumption loans—The loans above referred to are made for productive purposes, *i. e.*, for the furtherance of productive enterprise. When loans are made for the purpose of purchasing goods destined for immediate consumption, *e. g.*, pleasure automobiles, furniture, vacation trips, etc., they are consumption loans rather than production loans. Such loans are not self-liquidating and good banking practice dictates that they be refused.

#### 3. According to security.

(a) With *collateral* security, *i. e.*, supported by valuable property which is transferable and has a ready and reliable market, *e. g.*, bonds, stocks, bills of lading, warehouse receipts, mortgages, real estate, etc.

(b) With *personal* security, as evidenced by the indorsement or guaranty of a name or names other than the maker of the note. Such loans are known as two-name, three-name paper, etc. (See Guaranty.)

(c) Without either collateral or personal security.

#### 4. According to obligation or number of names responsible for payment.

(a) One-name paper, for which only one party is responsible for payment.

(b) Two-name paper, for which two names, either as joint makers or one party as indorser, guarantor or accommodation party, are responsible for payment. Trade

and bankers' acceptances are of necessity at least two-name paper, the acceptor becoming the maker, and the payer (drawer), the indorser. For the reason that acceptances are at least two-name paper, they are preferred as investments over single name paper.

(c) Three-name paper, etc., in which three names are responsible for payment. Either notes or drafts may be signed by three or even more parties who are responsible for payment.

#### 5. According to whether interest is paid at the time the note is made or at maturity.

(a) Loans on which interest is paid at maturity. Interest on demand loans usually is paid monthly, quarterly, or upon retirement. Interest on time loans is paid quarterly, semi-annually, or at maturity.

(b) Discounts—on which the interest is paid in advance at the time the loan is made. The distinction between loans and discounts is merely one of difference in the time of payment.

Loans may also be classified according to (1) rate of interest; (2) location of borrower; (3) business of the borrower, and (4) whether eligible for re-discount with a Federal Reserve bank. (See Call Money Market, Cattle Loans, Commercial Paper, Credit, Discount, Eligibility, Farm Credits Act, Farm Mortgages, Intermediate Credit Banks, Limitations on Bank Loans, Line of Credit, Notes.)

### Loans, Participation in

See Participation Loans.

### Lombard Street

An expression used to denote financial London, corresponding to the use of Wall Street, which refers to financial New York. As described by one English writer, Lombard Street represents, "the clearing banks of London, the discount houses, the bill brokers, and all the moneyed interests."

### London Equivalent

The price at which a security in London must be quoted to equal the New York price, being greater or less, depending upon the rate of exchange, cost of shipment, loss of interest, etc.

In arbitrage transactions in international securities, New York prices must be reduced to their London equivalent in order to ascertain whether a profit is possible. (See Arbitrage, Arbitration of Exchange, Back Spread.) Vice versa, there is a New York equivalent of London prices. Tables have

been prepared by which these equivalents can be quickly ascertained for different rates of exchange.

There is, of course, also an equivalent for all other points and currencies. (See *Commercial Parities*.)

### London Exchange

See *Sterling Exchange*.

### London Rates

Rates of exchange for the different classes of sterling bills (cables, checks, 30, 60, and 90 day bills), etc., as quoted in London.

### London Stock Exchange

The most important European stock exchange, and one of the best-known markets in the world. Its membership exceeds 5,000, and is governed by an annually elected committee of thirty. No person is eligible for membership who is engaged as principal or employee in any other business, or whose wife is so engaged.

Members of the exchange are of two classes, *Brokers* and *Jobbers*. The regulations provide that (1) no member shall carry on business both as broker and jobber, (2) no partnerships between brokers and jobbers shall be created, and (3) no member shall change his status from broker to jobber or vice versa without first giving a month's notice to the Committee.

Brokers deal with the outside public, and execute their clients' orders to buy and sell with the jobbers who are middlemen between those brokers who have securities to buy and those who have them to sell. The broker's compensation is the commission charged for executing the order, while the jobber's profit consists of the difference between the buying and selling prices. Jobbers are prohibited from dealing with the public.

On receiving an order from a client, the broker buys or sells from a jobber, as the case may be. Unless the client's *Limit* (q. v.) can be met, however, the order cannot be executed. If the order is executed, the broker forwards a contract note to the client in which the amount due and the settlement day are indicated.

The London Stock Exchange operates on a periodic instead of a daily settlement plan. There are two settlements per month, one near the middle, and the other near the end, of the month. All transactions within the period are to be settled at the next settlement day. There is some business done on a cash and immediate delivery basis, as on the New

York Stock Exchange. If a client does not wish to complete a purchase on the settlement day, his broker may arrange to carry payment over to the following settlement day. But for this service the client pays *Contango* (q. v.)

For the method of settlement, see *Settlement Days*.

### Long

A buyer or holder of stocks or bonds, usually on margin. One is "long" of a security when he owns more than he has contracts to deliver. The term is the opposite of *Short* (q. v.). When bulls have been buying they are long of the market or long of stock, and are those who have bought in expectation of an advance in prices. Long stock is held by bulls in distinction to short stock needed by bears. Those who are long of stock constitute the long interest in the market.

### Long Account

First read *Long*.

A term meaning the same as *Long Interest* (q. v.), which may refer to one security, or to the general market, and means the aggregate of securities purchased or held, usually on margin, in expectation of a rise.

### Long Bill (Draft)

A long-term bill; a bill of exchange drawn at say, 30 days' sight, or more. Long bills are usually drawn from sixty to ninety days after sight, and in Far Eastern shipments from four to six months after sight. (See *Foreign Bills of Exchange*.)

### Long-Dated Bill

See *Long Bill*.

### Long Interest

A term referring to the collective speculative ownership of a particular stock, or stocks in general; the aggregate holdings of the bull speculators. (See *Long*.)

### Long Market

An over-bought market. (See *Over-bought*.)

### Long of Exchange

To hold more exchange on a given country than one has sold.

### Long of the Market

See *Long*.



**Long Pull**

An expression to denote the purchase or sale of a security with full expectation of holding it for a considerable period of time before a profit can be realized. A speculative commitment made with the realization that the position must be maintained for a relatively long period, and is to be distinguished from commitments made "for a turn." Thus a security is said to be a purchase or a sale for the long pull. Speculators for the long pull naturally anticipate a larger profit on a single transaction than those who buy or sell "for a turn."

**Long Rate**

This term has two meanings:

(1) In foreign exchange, the rate at which long bills (drawn at 30 days' sight or more) and payable in another country, will be bought by the quoting bank or foreign exchange broker. Long rates are usually quoted for 30, 60 and 90 day bills, and are to be distinguished from the rate for cables, checks (demand drafts) and short bills. The long rate is determined as follows: The check rate in the basic rate. To this should be subtracted interest at the discount rate abroad for the period of the tenor, and then add the necessary revenue stamps (in England, 1-20th per cent.), correspondent's collection charge, etc. This result is subject to further slight modification under exceptionally heavy or slack demand for the particular class of bill.

(2) In fire insurance, a rate made for a premium covering a policy to remain in force for more than one year. Thus a long rate is given a three year policy, which is twice that of the annual rate. The rate for a five year policy is three times the annual rate.

**Long Side**

See Long Interest.

**Long Sterling**

Time bills of exchange drawn on London at 30 days' sight or more. (See Long Bills.)

**Long Stock**

See Long.

**Losses**

The chief losses to which a bank is subject are: (1) bad loans and investments, (2) cashing forged, altered, or stop payment checks, (3) accepting counterfeits, (4) defalcations or thefts by dishonest employees, and (5)

trading losses in foreign exchange or in securities. Some of these losses can be insured against. (See Bad Debts.)

**Lost Bank Book**

See Lost Pass Book.

**Lost Bonds**

See Care of Securities.

**Lost Pass Book**

The loss of a pass book for a commercial account is of no serious consequence since the pass book is only a memorandum of deposits. It is neither a book of original entry or a statement of account, and if lost, can not be used by another person for making withdrawals. In checking or commercial accounts the deposit slip is the important document and becomes the original entry record.

Among savings banks, however, the pass book is an important instrument, being at once a contract, and the only means by which the depositor makes both deposits and withdrawals. In New York savings bank practice, "if a pass book is lost, the depositor should immediately notify the bank and if, after a reasonable time, the book is not found and the balance therein is not over \$10.00, a receipt shall be taken for the balance, stating that the pass book is lost. If the balance due on the book is more than \$10.00, and not exceeding \$50.00, the depositor shall make an affidavit as to the loss of the book, and give a receipt for the balance. If the balance due is more than \$50.00, the depositor shall execute to the bank a bond of indemnity for twice the amount of said values with sureties to be approved by officers of the bank. In all cases of lost books the account shall be closed and the balance, if not withdrawn, shall be transferred to a new account under another number."

If a savings banks book be accidentally destroyed or lost and the owner makes an affidavit to that effect, and of its circumstances, and gives a receipt for money drawn on such account, such money will be paid, unless the case be such as to afford reasonable ground of suspicion or fraud. In all cases of loss or destruction of savings bank books, any officer of the bank may require a bond with sufficient sureties conditioned to indemnify the savings bank from loss by reason of making such payments, before the same shall be made."\* (See Pass Book.)

\* W. H. Kniffin, Jr., *The Savings Bank and Its Practical Work*, p. 168.

Temp







**Lost Stock Certificates**

See Care of Securities.

**Lottery Bonds**

Bonds which may be called by lot for redemption prior to maturity, for which the holder is paid in addition to the principal and interest a cash bounty or premium. Lottery bonds bear a definite number and a certain number is selected for repayment at a premium each year, thus introducing the gam-

bling feature which makes them attractive to a certain class of investors. Advertisements of the sale of lottery bonds are prohibited from the United States mails and shipments prohibited from interstate commerce. Lottery bonds cannot, therefore, be marketed in this country, although they are common among French and Belgian internal municipal issues.

**Louis**

See Foreign Moneys—France.

## M

### Mace

A Chinese coin.

### Mail Payment

A means sometimes employed in remitting small sums of money abroad, differing in no essential respect from remitting by means of check. For example, suppose "A" of New York wishes to remit \$100 worth of francs to "B" in Paris. "A" would apply to his bank in New York to make payment to "B" in Paris, requesting the bank to charge his account for the amount and costs. The bank then would ascertain the current rate for francs and compute the number of francs that \$100 would buy. Supposing the rate to be 19.3 cents, 518.2 francs could be purchased for \$100. To this, 25 cents would be added to cover postage.

Because mail payment remittances are for small amounts, rates are somewhat higher than for checks. When mail payments are made in dollars, a small commission, usually  $\frac{1}{4}$  per cent. is charged in addition to postage. The issuing bank then writes to its Paris correspondent asking it to pay "B" of Paris 518.2 francs and to charge its account therefor. The Paris correspondent then makes payment by means of the most convenient method (a) sending "B" a check drawn on themselves (b) sending actual currency by registered mail, or (c) requesting "B" to call personally for the funds.

### Mail Teller

The teller of a bank (sometimes known as fourth teller) in charge of receiving, assorting, proving and accounting for deposits which arrive by mail. Among larger city banks deposits from individual customers and correspondent banks located out of town are as heavy in volume as deposits received over the receiving teller's window. A large clerical force is needed to attend to the detail necessary to properly dispose of these deposits and it is the duty of the mail teller to supervise this work. A large part of this detail consists of assorting the checks according to the various collection agencies and proving the deposits with the deposit slips. Some will be collected through the local clearing house, others by messenger, others through the tran-

sit department and the home debits will be charged to customers' accounts. Usually the mail teller also administers the work of assorting clearing house items among the various clearing house banks, and has charge of the out-going exchanges.

### Majority Stockholders

The stockholders representing the controlling interest in a corporation. Usually ownership of 51 per cent. of the stock is necessary for this purpose.

### Maker

The person, or persons, (or corporation official or officials empowered to sign) who signs a check, draft, note or bond. Except in the case of a draft, the maker obligates himself to pay and is therefore the payer. The maker of a check or draft is also known as the drawer.

### Making a Book

When brokers receive limited buying and selling orders the prices therein are entered in a book, or on a sheet, under the name of the security affected, and arranged in order of price points at 1-8 (or other fractional) point apart, from high to low. One side is provided for purchases, the other for sales. By reference to this book a broker can tell at a glance the amount of each stock he must buy at each 1-8 (or other fraction) point down, as the price declines and how much he must sell at each 1-8 point up, as the market advances.

### Making a Market

A term used in several connections. It is essential in the flotation and distribution of securities that a good market be provided. A large percentage of many securities is held by speculators who borrow a part of their capital, and who would be unwilling to purchase securities unless a market existed for them, so that they can be sold when favorable opportunities arise. There are two essentials in making a market for a security: (1) favorable publicity and (2) listing on a recognized stock exchange. Before a new issue is floated the financial press usually supplies considerable information concerning

the condition of the issuing corporation and the issue itself. Listing on the stock exchange obviously increases the marketability of a security. (For the tests of eligibility for listing see Listed Securities.)

The term is also employed in connection with unlisted securities. Whenever a broker, investment banker, or syndicate names a price at which it will buy, and another price at which it will sell, a certain security, a market is thereby made.

### Making a Price

When a seller quotes a price which he is willing to accept at the request of the buyer, or vice versa. This term is also used of a practice on the *London Stock Exchange* (q. v.).

### Making-Up Price

The delivery price of a security. On the London Stock Exchange, it is the price at which a security is carried over from one settlement day to another.

### Manifest

A formal schedule or statement of a cargo taken on board a ship prepared by the manifest clerks under the direction of its master. It is in reality a summary of all the bills of lading covering the ship's cargo, and is at once an operating, clearance, entry and accounting document. Its preparation is required, and its form prescribed by the United States and by Governments of the various foreign countries. A manifest is sworn to before the customs' officials of the port of debarkation. One copy is forwarded to the customs' officials at the port of entry, another to the ship owners, and a third retained as a part of the records of the ship.

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### Manipulation

A general term indicating in the broadest sense the artificial advancing and depressing of prices by those who have ability to do so. The course of prices on an organized market may be artificially influenced in greater or less degree by numerous devices, including pools (inside and outside), rings, cliques, wash sales, matched orders, bucketing, corners, unlisting legitimate securities, and by disseminating "tips", false reports, or "alleged information". While corners, bucketing and the dissemination of false rumors

are unlawful and prohibited by exchange authorities, the last two methods are difficult to detect. In fact, it may be said that the flagrant circulation of false reports for the purpose of influencing prices has ceased, and by inquiring into the sources of information, speculators are able to distinguish between news items and mere rumors. The ultimate purpose of manipulation is to profit at the expense of the lambs (inexperienced speculators). Excessive or improvident speculation, whether based on unfounded rumor or established facts, is not manipulation. (See Bucket Shop, Clique, Corner, Matched Orders, Pool, Ring, Tip, Wash Sale.)

### Manuals

Periodic publications containing financial statistics and other information, and used as reference works among financial institutions.

Poor's and Moody's Manual Consolidated (published annually by Poor's Publishing Company) recites the chief financial facts (history, nature of business, personnel, comparative balance sheets, comparative earnings, etc.) of each of the principal railroad, public utility, and industrial corporations in the United States.

The Investor's Pocket Manual (published monthly by The Financial Press) gives a brief description of each company whose securities are listed on the principal exchanges of the United States, and contains a record of earnings, dividends, and range of stock prices over a period of years. Stock exchange brokers usually distribute these manuals freely to their customers.

The Manual of Statistics (published by the Commercial Newspaper Company) presents a brief financial analysis of the leading American corporations.

Other manuals are as follows:

1. Standard Statistics Company (47-49 West St., New York City).  
Standard Corporation Bond and Stock Cards.  
Standard Corporation Bond Ratings.  
Standard Service on Railroads.  
Standard Daily Trade Service.  
Standard Unlisted and Local Securities Service.  
Standard Investment Service.  
Standard Corporation News.
2. National Quotation Bureau (6 Cortland St., New York City).  
National Corporation Bond Summary.  
National Monthly Municipal Bond Summary.  
National Stock Monthly Summary.
3. Fitch Bond Record.



4. Albert W. Kimber (46 W. Broadway, New York City).  
Kimber's Record of Government (United States and Foreign).  
Debts and Other Foreign Securities (annual).
5. John Burnham & Company (Chicago, Ill.).  
Burnham's Manual of Mid-Western Securities (annual).
6. Otis & Company (Cleveland, O.).  
Manual of Ohio Securities (annual).

(See Business Forecasting Services, Financial Magazines, Financial Newspapers, Mercantile Agencies.)

### Margin

Legally, "a payment on account of a purchase," conferring ownership with its attendant risks and privileges upon the buyer. It is loosely but incorrectly referred to by financial writers as security, equity, deposit, "the sum which may be lost" (Hammond), and "provision against loss" (Century Dictionary). It is the difference between the amount advanced by a banker or broker on securities held for speculative purposes and the amount at which such securities would sell in the market. Thus, if a loan for \$100,000 is collateralized by securities the market price of which is \$120,000, the margin is \$20,000 or 20 per cent. The margin required by bankers and brokers varies according to the nature of the security pledged, and according to its marketability, activity, and range of fluctuation. The margin on a loan must always be protected, *i. e.*, if the market value of securities deposited as collateral declines, additional margin is required. Obviously the excess value of collateral over the loan is for the protection of the lender and represents a "margin of safety" or "buffer" to safeguard the loan. In case of a sudden decline in the market, unless the shrinkage in value of the collateral should be exceptionally severe and rapid, it would still be sufficient to cover the amount of the loan. The usual margin required on stock exchange loans is 20 per cent. on regular collateral and 25 per cent. on industrial collateral. (See Margin Buying.)

### Margin Account

An account of a speculator with a broker for the trading of securities on a margin, as distinguished from purchasing securities outright. (See Margin Buying.)

### Margin Buying

A large portion of listed stocks known as the *Floating Supply* (q. v.) are not owned outright but are held by speculators on margin. In margin buying the speculator furnishes only a part of the money necessary to purchase the stock, the broker furnishing the balance. The broker obtains funds for carrying margin accounts from banks by hypothecating the securities purchased for his customers. When securities are traded on a margin the broker retains them as security for the loan and since most speculators never intend to purchase stocks outright, they never actually see the securities in which they trade. The purpose of buying on margin is to increase the possibility of gain with the available capital resources. Ten to twenty per cent. is the conventional margin upon which stock and bond transactions are based.

The advantage of buying on a margin can be illustrated by the following example. Suppose a speculator with a capital of \$10,000 desires to purchase as much of a certain stock, selling at \$100 a share, as possible. If he bought the stock for cash and delivery, he would be able to purchase only 100 shares. On a 10 per cent. margin, however, he is able to buy 1,000 shares, the broker putting up \$9,000 and the speculator \$1,000. In this way the speculator can purchase ten times as much stock as he could by purchasing it outright. If the stock enhances in value, say one point, a profit of \$1,000 is made, whereas, in an outright purchase, the profit would be only \$100. The advantage of the increased possibility of gain, however, is offset by the disadvantage of equal possibility of loss, and herein lies the danger in margin trading. If the stock declines one point, the speculator loses \$1,000. The broker usually requires the margin to be kept good, that is, the 10 per cent. must be continually kept at that point. If there is a serious decline in the market price of the security purchased, the margin may be quickly wiped out. The broker has the right to sell the securities if the margin is not kept good or a stop loss order issued at the *Exhaust Price* (q. v.). In a declining market, therefore, the speculator is usually required to put up more margin or to lose his equity in the stocks carried.

While 10 to 20 per cent. is the customary margin required by brokers, each broker fixes his own margin requirements. Thus conservative brokers follow a plan something as follows:

- (1) For stocks selling below \$25—\$10.00.

(2) For stocks selling between \$25 and \$50—\$15.00.

(3) For stocks selling between \$50 and \$100—\$20.00, and special arrangements for stocks selling over \$100.

Stocks which fluctuate widely, *i. e.*, are erratic, or do not enjoy a ready market, are not carried on margins. Again, if the broker feels that prices are inflated, margin requirements may be raised, or he may refuse to carry additional stocks on margin at all.

Stocks bought on margin are owned by and held at the risk of the speculator. Dividends and all other rights declared on such stocks belong to him and are credited when received, to his account. Interest is charged by the broker for the amount of the customer's debit balance. The rate depends upon the average call loan rate for the month, plus an additional 1 or 2 per cent., as a carrying charge, but varying according to the size and activity of the account.

Because of the heavy losses often sustained by speculators unable to protect their margins in declining markets, reformers have tried to prohibit margin trading by enforcing outright buying. Margin trading, however, is fundamentally as sound as any kind of borrowing, where collateral is pledged as protection for a loan. The danger of margin buying lies in weak or thin margins especially when furnished by uninitiated speculators. Margin buying is often referred to as speculation; outright buying as investment. (See Exhaust Price, Margin, Stop-Loss Order, Short Sale, Wiped Out.)

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#### Margin Call

A notice sent by a broker to a customer, or by a bank to a borrowing broker, requiring additional security or a partial payment of a loan in order to offset or make good a loss in the value of the collateral, due to a decline in the market price of securities pledged. The following is an example of a typical margin notice:

"As the present market value of the securities pledged to us as collateral against your indebtedness is not sufficient to give the customary margin, please send us at once additional satisfactory securities to make good the margin, and oblige."

If additional margin is not immediately delivered, the broker or the bank has the

right to sell the securities to satisfy the loan and any interest due, and to return any remaining balance to the borrower.

#### Margin Notice

See Margin Call.

#### Margin of Safety

An investment term used to denote the excess value of collateral over the amount of the loan it secures. Thus, if a \$500 mortgage is placed against real estate appraised at \$1,000, the margin of safety is \$500, which is equal to 100 per cent. or the amount of the loan.

It is also used to denote the excess of average earnings over bond interest requirements, or to denote the excess of average earnings over dividend requirements.

#### Margin Requirements

See Margin Buying.

#### Maria Theresa Dollar

An Abyssinian coin. (See Foreign Moneys—Abyssinia.)

#### Marine Insurance

See Lloyd's Marine Insurance Certificate.

#### Marine Insurance Certificates

After the ocean bill of lading, the marine insurance certificate is the most important shipping document which accompanies a foreign bill of exchange, without which the shipper and the bank financing the shipment would take all the risks incident to marine transportation. Marine insurance is therefore provided to cover the various marine hazards incident to overseas shipments, as protection to both the shipper and the bank which advances funds against the shipment.

While the law holds railroads (as common carriers and bailees) to strict responsibility in undertaking the transportation of goods, and makes them liable for practically all losses and damages, *e. g.*, theft, breakage, fire, etc. (all except those caused by a public enemy, or the so-called acts of God), the *Harter Act* (q. v.) has relieved ocean carriers of many specified marine risks. To provide for their liability to shippers, railroads insure themselves against all risks assumed as common carriers, by blanket insurance policies. Ocean carriers being relieved of responsibility for cargoes, provide only for insurance to cover the vessel, pass-



ing on the burden of insuring the shipments constituting the cargo, to the shippers.

Each ocean shipment should be covered against general marine risks and for others to which it may be especially exposed, *e. g.*, pilferage or breakage. The customary insurance policy covers only certain risks and it is advisable that a proper understanding of the limitations and conditions of the insurance be reached between shipper and insurance agent in order to avoid future controversy. Insurance is usually obtained from the point of origin to the ultimate destination and the insurance certificate is issued in the name of the shipper. An indorsement in blank is desirable just as in the case of a bill of lading when the documents are delivered to the accepting bank.

The amount of insurance should fully cover the cost of the goods. It is even advisable to insure for a greater amount than the invoice value, say 10 per cent., to cover the shipper's profit and such transportation charges as are already incurred. It is important that the insurance policy cover all the important risks, and in time of war, war risk. (See Average.)

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#### Marine Insurance Policy

See Marine Insurance Certificate.

#### Mark

See Foreign Moneys—Germany.

#### Mark-Down

An expression used in banking practice to denote the re-appraisal of the value of securities pledged as collateral to stock exchange loans whenever there is a severe decline in the stock market. This procedure is necessary whenever securities decline, say on an average of four points or more, as a protection to the bank's loans, and out of recognition of the principle that margin requirements must be kept continually good. The procedure requires the examination of the collateral cards of each stock exchange loan, and changing the value of the securities to conform with the latest quotations. It is therefore a reinventorying of the collateral in accordance with the prevailing or most recent market quotations. When the change

in the value of each security in the collateral to each loan has been noted, the total value of the securities is then ascertained. Whenever the total value of the collateral computed under the re-appraisal is insufficient to furnish the required margin the loan is under margined, and a margin notice is forwarded to the borrowing broker. (See Margin Call.)

#### Marked Check

In some instances depositors have arranged with their banks that each check drawn by them shall bear a certain distinguishing mark known only to the depositor and the bank. The purpose of the marked check is to prevent forgery and the bank is bound not to pay checks for such depositors which do not bear this distinctive mark.

#### Market

A means of trading intercourse. Although a market is usually thought of as a locality, it is rather the circumstances under which buyers and sellers communicate and determine the prices of the commodities traded in. "A coming together of offers and demands for economic goods, irrespective of the physical presence of the contracting parties. The market may be local, national or international; wherever definite quantities of goods are bought and sold, there is a market, and the price at which the exchange is effected is the market price."\* "The general field within which the forces determining the price of a particular commodity operate." "The place or conjunction of means through which buyers and sellers are brought together for the exchange of economic goods."†

There are several classifications of markets. The chief classification is that based upon the kind of commodity traded in, *e. g.*, stock market, produce market, grain market, money market, cotton market, live stock market, real estate market, wool market, lumber market, foreign exchange market, etc. Markets may be formal or organized, and informal or unorganized. When organized, they are usually called exchanges, *e. g.*, the New York Stock Exchange. The markets for foreign exchange, wool, lumber, etc., are unorganized. Organized markets are closed, while unorganized markets are open; that is, trading in the former is limited to members of the exchange, while in the latter, trading is open to everybody.

\* R. T. Ely: *Outline of Economics*, p. 154.

† H. R. Seager: *Principles of Economics*, p. 110.



Markets may be classified in accordance with the breadth of the demand for various products, *e. g.*, world, national, and local market. With the perfection of the means of communication, many commodities now enjoy a world market, *e. g.*, international securities, sterling and dollar exchange, wheat, cotton, wool, etc. A national market is one in which a commodity is traded in only within the borders of one country. A local market is one in which commodities are exchanged only within a restricted area.

Markets are primary and secondary. A primary market is one located in the centers of consumption where large quantities are available for distribution and stored in warehouses, elevators, or railroad or shipping terminals. Chicago is a primary market for wheat and other grains. A secondary market is one near the points of production. It is the place where commodities are collected and not distributed. A small prairie town would be a secondary market.

Markets are also continuous and discontinuous. The New York Stock Exchange provides a continuous market for listed stocks and bonds. The market for unlisted stocks and bonds is discontinuous. An auction is a discontinuous market. (See Auction, Chicago Board of Trade, Marketability, Market Price, Market Value, New York Curb Market, New York Cotton Exchange, New York Consolidated Stock Exchange, New York Coffee and Sugar Exchange, New York Produce Exchange.)

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#### Marketability

The relative ease with which a security or commodity can be sold. In purchasing securities, one of the most important features to be considered is marketability. An investor, whether private or institutional, may be suddenly confronted with a need for cash, and in an emergency the advantage of possessing marketable securities is apparent. Of all forms of investments, listed active

stocks and bonds enjoy the greatest marketability, the degree of marketability depending upon the degree of their activity. Marketability is also essential in imparting to a security acceptability as collateral, *i. e.*, *Hypothecary Value* (q. v.).

The marketability of commodities depends upon competition, demand, supply, location, seasons, quality, policy of middleman, etc. Trade channels for various commodities are standardized and markets must be studied. Some manufacturers sell directly to consumers by mail, others through jobbers, and still others through retailers, oftentimes maintaining their own retail organization. Salesmanship and advertising are modern devices for increasing the marketability of commodities.

Fixed assets, especially real estate, have low marketability and ordinarily considerable time is required in order to dispose of them. In the case of real estate, moreover, the title must be searched and deed recorded, whereas transfers in securities and commodities can be made without these preliminaries. (See Market.)

#### Market Averages

One of the chief barometers upon which investors and speculators rely in making market commitments. Although the prices of securities fluctuate according to the particular conditions affecting them, it is well known that in the case of stocks especially, prices rise and fall sympathetically. So true is this phenomenon that the *Street* speaks of the entire market as being bearish or bullish, or that average prices in general are too high or too low. This sympathy in price movements is but a corollary of the principal of interdependence of all industries, and of solidarity in the commercial and economic structure. Economic conditions that tend to cause an increased volume of business and increased earnings in one industry, tend also to better the earnings of others.

By studying the average prices of groups of stocks or bonds over a period of time, superior insight may be had into the high and low average prices for a given "major swing", or *Speculative Cycle* (q. v.). Financial magazines and newspapers publish daily averages of both stocks and bonds. It is customary to furnish averages for a certain number of (1) railroad stocks; (2) industrial stocks, and (3) all stocks, the latter being an average of (1) and (2) combined. If, for instance, the average of industrial

stocks should be twice that of a year ago, it is probable that the initiated speculator will refrain from making purchases. Indeed, if other barometers indicate that business is due for a slump, that prices are declining, and that earnings are likely to be curtailed, it may be time to sell.

Average bond prices fluctuate, not so much in accordance with business conditions, as with interest rates. This is particularly true of Government and municipal bonds, and of high grade corporation bonds where the interest charges are well below average earnings. Among the more speculative bond issues, prices are considerably influenced by business conditions, as well as by interest rates. Since average bond prices are chiefly influenced by changes in interest rates, they are much more apt to move sympathetically than in the case of stocks which tend to move by groups. In preparing averages of bond prices, it is usual to furnish separate averages for at least four groups, *viz.*, railroads, industrials, public utilities and municipals. Separate averages may also be furnished for United States Government and foreign Government bonds, as well as for all bonds.

Average prices for stocks and bonds are compiled by practically every financial newspaper and magazine, including the leading daily newspapers of the principal cities.

### Market Letters

Practically every brokerage house issues a daily market letter which it posts in its customers' room for the information of its clients, and transmits by telegram to its branch offices. Such a letter is a short resume of the more prominent political, business, financial, and technical market factors bearing upon the immediate price trend. Advice is sometimes given as to commitments, recommendations for purchase and sale in certain groups or specific securities, being volunteered.

In addition to the daily market letters described, many brokerage houses publish a more or less elaborate review every week or month. Such reviews contain a summary of business and financial conditions, analyses of particular stocks or bonds which the house favors, opinions of leading financial writers, statistical charts, and special features.

A resume of the leading financial and commodity markets appears in the newspapers of the larger cities as a regular department. Monthly business reviews are

published by all of the 12 Federal Reserve banks, and by many of the metropolitan commercial banks.

The following is a specimen market letter:

"In summing up it is more and more apparent every day that conditions affecting stock exchange securities are strongly characteristic of the early stages of a major advance in prices. One might say that we are now in the creeping stage. Improvement has been going steadily on for three months. Stocks have been passing from weak to strong hands. The market is undoubtedly in the early accumulative stages. The distributive period will probably come next year. I would not hesitate to buy good stock in all groups of the list. There are some industrials, however, that do not appear to be out of the woods. Just when it will come it is difficult to say. Copper stocks are steadily growing in public favor. They are very cheap and have great possibilities in my opinion. There promises to be spectacular bullish operations in the oil group. Steel and railroad equipment shares appear to be in a promising position."

"Some time early in the year, probably after disappointing reports of corporate earnings during this year's liquidation of commodities have been read and digested, we believe a distinct business revival will be under way. Important manufacturers tell us their plans are based on this expectation and we think they are warranted." (See Business Forecasting Services.)

### Market Off

An expression used to denote that the prices on a stock exchange have declined for the day.

### Market Order

An order given to a broker to be executed at the best price obtainable for the particular security or commodity immediately after its receipt. If no price is stated in an order, it is always understood to be "at the market". (See Orders.)

### Market Price

The price which is currently being realized for a particular security or commodity. (See Market Value.)

### Market Price of Bullion

See Mint Price of Gold.

### Market Price of Gold

See Market Ratio, Mint Price of Gold.



**Market Rate of Interest**

A term used to denote the rate of interest charged by banks for different classes of loans, different rates being quoted for call loans, time loans (with mixed, industrial and Government bond collateral), commercial paper, bankers' acceptances (eligible and ineligible), etc. (See Bank Rate, Interest Rates, Money Market, Rediscount Rate.)

**Market Ratio**

A term, also known as the commercial ratio, to denote the ratio at which equal weights of gold or silver exchange in the market, as distinguished from their coinage or mint ratio. Since the success of bimetallism depends upon the maintenance of equivalence between the market and mint ratios of gold and silver, the governments which formerly adopted the bimetallic standard attempted to establish a mint ratio equal to the current market ratio. Experience shows, however, that the market ratio of gold and silver varies according to the demand and supply of these commodities, the extent of the variation in the average market ratio from year to year shown in the following table, explains the impossibility, from a practical point of view, of keeping the two ratios uniform:

Year	Ratio
1700.....	14.81
1725.....	15.11
1750.....	14.55
1775.....	14.72
1800.....	15.68
1825.....	15.70
1850.....	15.70
1860.....	15.29
1865.....	15.44
1870.....	15.57
1875.....	16.50
1877.....	17.22
1878.....	17.94
1879.....	18.40
1880.....	18.05
1881.....	18.16
1882.....	18.10
1883.....	18.64
1884.....	18.57
1885.....	19.41
1886.....	20.78
1887.....	21.13
1888.....	21.99
1889.....	22.10
1890.....	19.76
1891.....	20.92
1892.....	23.72
1893.....	26.49

Year	Ratio
1894.....	32.56
1895.....	31.60
1896.....	30.66
1897.....	34.20
1898.....	35.03
1899.....	34.36
1900.....	33.33
1901.....	34.68
1902.....	39.15
1903.....	38.10
1904.....	35.70
1905.....	33.87
1906.....	30.54
1907.....	31.24
1908.....	38.64
1909.....	39.74
1910.....	38.22
1911.....	38.33
1912.....	33.62
1913.....	34.19
1914.....	37.37
1915.....	39.84
1916.....	30.11
1917.....	23.09
1918.....	21.00
1919.....	18.44
1920.....	20.27
1921.....	32.99
1922.....	30.59

(See Mint Ratio.)

**Market Sentiment**

The prices of securities on a stock market are affected by many factors commonly referred to as "sentimental," which exert considerable influence in the determination of prices. An unfavorable earnings report of a large corporation, for instance, tends to depress prices, even though the general outlook is favorable. A sudden reduction in the call money rate sentimentally would have a favorable influence upon prices, even though the lower rate may later prove to be only temporary. Likewise strength or weakness in the grain and cotton markets and in the foreign exchanges are likely to impart strength or weakness to the stock market, even though the connection between them is remote.

The term is used also to denote the general tone or feeling of operators toward the immediate future course of prices. Thus, market sentiment may be bullish (cheerful), bearish (gloomy), or mixed (divided) for the current day, immediate future, or for the "long pull".

**Market Spots**

See Spotty.



### Market Swings

See Business Cycle, Speculative Cycle, Swings.

### Market Value

The current or prevailing price of a security or commodity as indicated by current market quotations, and therefore the price at which additional amounts presumably can be purchased or sold. At any given time, the market value of a given security is taken to be that indicated by the last sale; inactive securities, where no current quotations are available, the latest bid price. In the case of unlisted securities, the market value may be determined by the last private sale, or by competent appraisal. The market value constantly fluctuates in active issues and may change frequently during the course of a single day's trading.

### Marking Down Rates

An expression used in banking practice to indicate the reduction in the rate charged on outstanding call loans. It is usually the practice for brokers who have borrowed call money to ask the lending bank for a decrease in the rate when the renewal rate is reduced to a rate below that at which the loan previously stood. Some banks automatically mark down the rate on standing call loans when the renewal rate changes in favor of the borrower. (See Call Loan.)

### Marking Time

An expression used to denote that prices on a stock or produce exchange are without definite trend; a hesitating, stationary, unchanged, trendless condition preparatory to a move. Such a market exists when there is no change in fundamental conditions to warrant changes in prices, and operators are waiting for events capable of either favorable or unfavorable interpretation, in the meantime preferring to proceed experimentally.

### Marking Up Rates

Banks lending call money notify the borrowing brokers whenever the renewal rate on outstanding call loans is changed to a higher figure than that at which the loan was originally arranged or previously standing. (See Call Loan.)

### Markka

See Foreign Moneys—Finland.

### Mark Signature

When a person is unable to write his own name, his signature to any legal instrument, *e. g.*, check, note, mortgage, passbook, etc., is affixed by means of a cross or other distinguishing mark. The name of the signer is then written next to the mark by a witness in the following manner:

John	his X	Johns
	mark	

The witness signs his own name as witness.

Savings banks which serve communities where illiterates are numerous, must provide for mark signatures, or other means of identification. Usually the mark signature is supplemented by additional data which may be used as a basis for test questions for the purpose of future identification. Such data usually consist of recording the age, date of birth, father's name, mother's name, occupation, color of eyes, color of hair, height, distinguishing marks, etc. When the passbook is presented for the purpose of withdrawing money, test questions are put to the customer based upon the foregoing data. (See Finger Print Identification.)

### Matched Orders

A form of *Manipulation* (*q. v.*) by which an operator buys a particular stock from one broker and sells it through another, thus artificially giving the appearance of activity. The purpose of matched orders is to induce buying of the stock by the public as a result of the display of activity and change in price and unloading when the price has risen sufficiently to permit a satisfactory profit. The brokers receiving the orders to buy and sell usually have no knowledge of the purpose of the transaction, and carry out their orders in good faith. This is an expensive method of manipulation and is likely to prove costly for the unsuccessful manipulator.

### Maturity

The terminating or due date of a note, time draft, acceptance, bill of exchange, bond, etc. The date a time instrument of indebtedness becomes due and payable, *e. g.*, a 60-day note becomes due and payable at the expiration of that period. A check, or sight or demand instrument matures upon presentation for payment.

Time drafts or bills of exchange drawn, *e. g.*, 30 days after sight, mature 30 days after presentation for acceptance, the ma-

turity being fixed by computing the date 30 days thereafter. Time drafts should therefore be presented for acceptance as soon as possible, whenever it is desirable to bring the maturity at the earliest possible date. (See Days of Grace.)

As to maturity, bonds may be classified in four groups, *viz.*: (1) obligatory maturity without provision for prior redemption; (2) obligatory maturity with prior redeemability with or without a premium; (3) indeterminate maturity, *i. e.*, no definite maturity indicated but redeemable after a certain date at the option of the issuer; (4) perpetual bonds issued without provision for optional or obligatory maturity, except in case of default in interest payments. It is commonly supposed that stock issues never mature, but this is not the case. Some common issues and many preferred issues are issued subject to redemption, in whole or in part, and usually at a premium. (See Prior Redemption.)

### Maturity Index

See Tickler.

### Maturity Tickler

A record kept for the purpose of indicating the date upon which each loan, bill discounted, bond investment, or other time instrument matures. (See Tickler.)

### McLean-Platt Act

An Act passed September 17, 1919, under which National banks, without restriction to the amount of their capital and surplus, were permitted to subscribe in amounts not exceeding 5 per cent. of their capital and surplus to the stock of foreign banking corporations, as a further means of providing for the capitalization of institutions engaged in financing foreign trade. This Act was superseded by the *Edge Act* (q. v.).

### Mechanic's Lien

A claim created by statute law in most states, existing in favor of mechanics or other persons who have performed work or furnished materials in and for the erection or repair of a building. A mechanic's lien attaches to the land as well as to the building. It is a preferred claim and secures to the holder priority of payment, *i. e.*, payment before other secured and general claims, except taxes.

### Meet

To fulfill one's financial obligations, *e. g.*, paying off a maturing loan or taking up on the delivery date securities previously contracted for.

### Meetings

See By-Laws.

### Melon

A stock market expression to denote a stock dividend or large extra cash dividend. When any extraordinary disbursement of corporate profits is declared, the directors are said to have "cut a melon."

### Member Banks

The Federal Reserve Act states that "the term, 'member bank' shall be held to mean any national bank, state bank, or bank or trust company which has become a member of one of the reserve banks." Since all National banks are required to join the Federal Reserve System, they are ipso facto, member banks.

### Mercantile Agencies

Companies engaged in the business of supplying credit information. Mercantile agencies are of two classes, general and special. Of the general agencies, Bradstreet's and R. G. Dun and Company are the oldest, best established, and most generally used. These companies have been in existence for well over 50 years (the first general agency being started in New York City in 1841), and the entire country is served by their many branch offices. Their services are national in scope and they are prepared to issue reports on practically any business house (producers, manufacturers, jobbers, wholesalers, retailers, brokers, and traders) in the United States. Special agencies are those that limit their services to a single or related lines of trade, and operate nationally or in a local field. Practically every trade association in the country has organized its own credit information exchange bureau, *e. g.*, The Iron and Steel Board of Trade, which specializes in the collection and dissemination of information upon names in those trades.

The general mercantile agencies furnish reports of two kinds, general and special. The general reports are contained in the reference or credit rating books, which are published quarterly. These books are leased (not sold) to the subscribers, and contain nearly 1,900,000 names. Each name is given



a capital and credit rating. The capital rating is based on the information contained in the financial statement which the agency endeavors to procure from each listed name every six months. The *Credit Rating* (q. v.) denotes the grade of credit to which the name is entitled in the opinion of the agency as a result of its investigations.

The special reports are usually limited to certain lines of business or to the more important names, but the general agencies do not attempt to furnish such reports on all names. Special reports are obtained under contract, the price varying with the number requisitioned per year. The information furnished in special reports is of a general nature, but oftentimes quite extensive. As a rule these reports embody the following points: history, antecedents, and past record of the concern; present personnel; nature of the business; latest statement; total assets and liabilities from previous statements; location of properties; character and capacity of management; fire record; court record; general credit standing; opinion of the trade; and business outlook. From the standpoint of a bank undertaking a credit investigation, the special reports of the agencies are valuable in (1) furnishing the history of the concern; (2) in furnishing 'leads' which may serve in detecting other important information, and (3) in corroborating information obtained from other sources.

Information obtained by the mercantile agencies is collected from various sources: (1) direct investigation of the name; (2) trade creditors and banking connections; (3) public records, and (4) insurance records. These agencies maintain a corps of reporters who call on the trade, and written questionnaires are forwarded semi-annually to all business houses throughout the country to be answered and returned. Most business men recognize the value of establishing and maintaining their credit position, and consequently are willing to accede to the request of mercantile agencies for information. If this information cannot be secured directly, the facts are obtained from neighboring business houses or banks in the community.

Public records are also investigated. Usually the county clerk of each community is engaged to forward a report upon all items of interest to the central office of the agency. In larger cities, agencies engage their own representatives to search these records. For instance, the records of the County Recorder's Office are searched for mortgages and other encumbrances, and various court records are searched for suits in civil or

criminal cases, petitions and discharges in bankruptcy, and judgments and appeals.

The investigation of losses by fire, burglary, etc., constitutes an important part of the work of the general agencies. By special arrangement with the fire patrol of each city, local and national boards of fire underwriters, city and state fire marshals, and insurance companies, agencies are able to secure a vast amount of information concerning business insurance. Whenever a fire occurs, reports are made by the city fire patrol, local board of fire underwriters, etc., so that the agency can determine the amount of the loss, whether insured, and the extent of the fire adjustment, so that the net loss can be established.

Among the more important special agencies, whose services are national or local in scope and used by the trade, banks, and financial institutions are the following.

1. National Credit Office—Reports on many kinds of business houses, particularly textile houses and commercial paper names.

2. The Bankers' and Manufacturers' Mercantile Agency—Reports on names in the leather trades, and commercial paper names.

3. The Commission Credit Bureau (Myers and Browning Division)—Reports on dry goods and textile names.

4. Iron and Steel Board of Trade—Reports and rating book on concerns engaged in the manufacture and sale of iron and steel products.

5. Bishop's Service; Proudfoot's Commercial Agency; Frederick O. Brown's Service—Reports on individuals and companies engaged in financial, brokerage, and promotion lines.

6. Alfred M. Best Company—Reports on insurance companies, insurance brokers and agents.

7. Underwriters and Commercial Bureau, Inc.—Reports on fire losses and adjustments for all trades.

8. Drug and Chemical Mercantile Agency, Inc.—Reports on drug, chemical and allied trades.

9. Graphic Art's Board of Trade and Typo Mercantile Agency—Reports on paper, printing, publishing, stationery and paper box names.

10. New York Credit Clearing Exchange—Telephonic reports on trade names with particular reference to banking connections. (See Business Forecasting Services.)

### Mercantile Paper

Notes, acceptances, and bills of exchange made or indorsed by concerns engaged in



the jobbing, wholesaling, or retailing of commodities, as distinguished from obligations arising out of the production or manufacture of commodities. The short-term obligations of a wholesale grocery would be mercantile paper, whereas that of a farmer or steel manufacturer would not. Mercantile paper is a sub-classification of *Commercial Paper* (q. v.).

### Merchandise Turnover

The rate at which the stock of merchandise of a concern is moved. It is also known as the "momentum of sales," or sales to merchandise ratio. The merchandise turnover is properly determined by dividing the annual cost of goods sold by the average inventory, but in practice, it is usually computed by dividing the annual net sales by the average inventory.

The merchandise turnover varies in different lines of business, each having a standard peculiar to itself. The merchandise turnover among wholesale groceries is naturally greater than in ship-building, jewelry, or furniture business. It may be from seven to twelve in the former and two in the second and third. This ratio is an important barometer of the internal condition of a single business, and taken in the aggregate, it is a barometer of general business conditions. It is an indicant of overstocking or slow merchandising, or of rapid moving of goods according to whether the ratio is high or low. No greater amount of capital should be tied up in inventories than necessary and the faster goods can be "turned", the greater the profit on the capital invested. Assuming the same margin of gross profit or "mark up", it is more profitable to move \$50,000 of goods twenty times a year than \$100,000 of goods ten times, because in the first instance the business can be carried on with half the capital of the second. When the merchandise turnover is relatively high, it indicates the capacity of the management to move its goods quickly and discloses a favorable condition.

In analyzing credit risks, wherever the merchandise turnover is high, insistence on a high current ratio is less important.

### Merger

A combination of two or more corporations into one business unit which retains the name of one of the merged corporate units. In a merger there is an outright ownership of the combined units, whereas in the case of a *Holding Company* (q. v.) control of the

combined properties is usually secured through a partial or majority stock ownership.

The banking laws permit National banks to merge with other National banks and most of the state banking laws accord state banks the same privilege. Important restrictions, however, are imposed upon branch banks. (See Branch Banking, Consolidation of Banks.)

### Messenger

A name given to certain employees of banks and brokerage houses. The chief function of bank messengers is to collect items (checks, notes, acceptances, etc.), not drawn on clearing house banks and not collectible through the clearing house, by direct presentation. They also collect special items drawn on individuals, brokers, corporations, etc., *e. g.*, arrival drafts and drafts with stocks and bonds attached. Collections made by messengers are frequently known as collections by hand. The larger banks maintain a large corps of messengers, usually under the supervision of the city collection or note teller's department. They are given specific instructions, are not allowed to use their own discretion, may accept only cash or certified checks in payment of items and must demand the return of all unpaid items.

Brokers' messengers are employed to effect the transfer and delivery of securities, and are frequently entrusted with large amounts of valuable papers. Protection from possible loss by the dishonesty of messengers should be provided through fidelity and theft insurance.

### Metal Exchange

See New York Metal Exchange.

### Methods of Trading

There are four methods of trading on the New York stock exchange; (1) for cash or outright purchase; (2) regular way; (3) at 3 days; (4) buyers' and sellers' options. When securities are bought for cash the seller must deliver them to the buyer and payment be made by certified check on the day of the transaction. If the stock is to be transferred to the customer's name, the certificate or certificates are taken to the transfer agent's office and a new one issued in place thereof. This may require several days. Stock certificates cannot be transferred when the books of the corporation are closed. (See Books Close.)

When securities are bought in the regular way, delivery by the seller and payment by the buyer must take place before 2.15 P.M. on the next business day following the trade. If the trade occurs on Friday or Saturday, delivery and payment are made on Monday. The great majority of transactions are consummated by this method.

When securities are purchased at three days, delivery and payment must be made on the third business day after the trade occurs.

When securities are bought or sold on options, the period specified may be not less than four or more than sixty days. Within this period the buyer in a buyer's option has a right to demand delivery of a certain number of shares at a stipulated price, should he so desire. Buyers' and sellers' option contracts must be written. (See Option.)

### Mexican Money

See Foreign Moneys—Mexico.

### Milking

An expression used to denote the process employed by the management of some companies of exploiting their business by squeezing the last cent of profit from operations, *e. g.*, by failing to reserve a part of earnings for expansion and improvements, not charging sufficient depreciation, or by other improper, although perhaps legal, accounting methods. The term is usually applied to the directors of public utilities, whose financial practices tend to enrich the stockholders at the expense of the public through malmanagement rather than mismanagement.

### Mill

A theoretical monetary unit of United States currency, having a value of one-tenth of a cent. It is not coined, but is used in money calculations where precision is required.

### Millieme

An Egyptian coin. (See Foreign Moneys—table 2.)

### Milling

The ridged or furrowed edge forming the circumference (rim) of gold and silver coins. The nickel and bronze coins of the United States are not milled. The purpose of milling is to prevent the clipping or filing of the edges and the sale of such clippings by dishonest persons, by making the filing or mutilation so obvious that the coin could not be easily passed. Coins are designed to be

thickest at the edges in order to better protect the engraved figures on the obverse and reverse surfaces. (See Abrasion, Coinage.)

### Milreis

A Brazilian and Portuguese money. (See Foreign Moneys—Brazil, Portugal.)

### Mining Securities

The stocks and bonds of coal, copper, silver, lead, zinc and gold mining companies. In general, this class of securities is the most speculative of all, especially if the properties are undeveloped. In considering the purchase of mining securities, one should carefully distinguish between producing and undeveloped companies. Babson distinguishes between (1) producers and dividend payers; (2) producers and non-dividend payers; (3) corporations in the development stage which may or may not produce, and (4) prospects, consisting of leases or options upon property thought to contain mineral deposits.

In computing the worth of producing mining properties, the most important factors to consider are: (1) the extent of ore reserves; (2) the cost of mining a given unit in comparison with its selling price, and (3) the accounting policy with regard to *Depletion* (q. v.).

Nowadays it is usually implied that mining technology has advanced to a point where ore reserves can be exactly estimated. This is far from the truth, especially in the case of precious metals, where there is no way of determining the length of a vein. In the case of coal and copper, however, more or less accurate estimates can be made.

There is a wide difference in the cost of production of a given mineral from mine to mine. Copper producing companies are referred to as high and low cost producers, the porphyry mines being the high cost, and the Upper Michigan and Montana mines being the low cost, producers.

When the raw material, coal or ore, has been extracted from a mine, the property, including the machinery and shafts, is almost worthless. It is specialized machinery, and its cost to move would be nearly as much as it is worth. For this reason, a mining company must provide, in addition to earnings, an amount sufficient to liquidate the original investment. In order to retire its bonds and stocks a mining company must formulate a policy of depletion which will permit setting aside out of earnings periodically a sum which, when the mineral assets have become exhausted, will equal the original investment. The perfection of the depletion policy de-



depends upon the accuracy in estimating ore reserves, and too much reliance should not be placed upon the engineer's estimates. Many mining companies do not make charges for depletion and therefore do not build up depletion reserves. When this is the case, no bonds should be issued and dividends upon stocks of such mining companies should be regarded not only as a return on investment, but also as a return of investment.

Mining bonds are not numerous among mining companies as a class, but a few of the large coal and copper companies have issued them. Mining bonds should always be of the sinking fund variety, which provide for the periodic setting aside out of earnings sums with which to retire the bonds in proportion as the mineral assets are extracted. Sinking fund reserves should be deposited with a trustee.

### Minor Coinage Profit Fund

The profit which the Government makes in coining *Minor Coins* (q. v.) from copper and nickel metal. It is equal to the difference between the value of the coins and the commercial value of the bullion used in their coinage. This amount is placed in the minor coinage profit fund.

### Minor Coins

The nickel five-cent piece and the bronze one-cent piece. (See *Bronze Coins*, *Nickel*, *Token Money*.)

### Minority Stockholders

A term used to denote the interest of those owning less than 50 per cent. of the stock of a corporation. Oftentimes the majority of the stock of a corporation is held by another corporation, or by a few individuals who thereby control its policy through the voting power of the stock they own. By means of cumulative voting, minority stockholders frequently can elect one or more directors at the annual meeting, provided they hold a fair proportion of the stock. Whenever the by-laws of a corporation permit cumulative voting, an important advantage is given to the minority stockholders.

### Mint

A place where metallic money is manufactured or coined. The United States mint is one of the bureaus under the Treasury Department and is headed by the Director of the Mint who is under the authority of the Secretary of the Treasury. The United States mints are located at Philadelphia, San

Francisco and Denver. Those located at New Orleans and Carson are bullion purchasing mints and are not now operated as coinage mints.

### Mint Check

A check drawn on the U. S. Treasurer in payment for gold deposited at a mint.

### Mint Fine Bars

Bars of gold or silver of 0.992 fineness and upward.

### Mint Mark

The mark on a coin which indicates the mint at which it was made.

### Mint Par of Bullion

See *Mint Price of Gold*.

### Mint Par of Exchange

The ratio of one country's standard unit to that of another country on the same metallic basis; the bullion value of the monetary unit of one country expressed in terms of that of another. For any given nation it is determined by dividing the weight of pure gold contained in its standard coin or monetary unit into the weight of pure gold contained in the standard coin or monetary unit of another, the value of the alloy being disregarded. For instance, the mint par of exchange of the pound sterling with the United States dollar is \$4.8665, meaning that there is 4.8665 times as much pure gold by weight in the pound sterling as in the United States gold dollar. The mint par of exchange never varies unless one country alters its coinage regulations. The mint par is distinguished from the commercial rate, which is not fixed but normally fluctuates in accordance with the supply and demand of bills of exchange and other factors. (See *Commercial Parities*, *Long Rate*.)

(For the *Mint Pars of Exchange* of the standard coins of the principal foreign countries, see *Foreign Moneys*.)

### Mint Price of Gold

The coin equivalent of a given weight of gold of standard fineness (9-10 fine). In the absence of a seigniorage charge it is really not a price at all, but a fixed amount which the assay offices and mints are indirectly required by statute to pay for any given weight of gold of standard or other fineness. The law declares that the value of 23.22 grains of pure gold, or 25.8 grains of standard gold,



shall constitute the dollar, the monetary unit of value of the United States. Since 23.22 grains of pure gold is equal to \$1.00, the assay offices or mints will receive and pay for pure gold at the rate of \$20.67 per fine ounce. This is determined in the following manner. Since there are 480 grains in one ounce and 23.22 grains equal \$1.00, it will take \$20.67 to buy 480 grains, *i. e.*, 480 divided by 23.22. \$18.60 is paid per standard ounce (0.900 fine), this amount being exactly 9-10 of \$20.67. Slight coinage charges are made when gold offered is less fine than standard gold.

Payment for gold sold at the assay offices or mints may be received in fine bars, gold coin, or by check upon a Federal Reserve bank, or the United States Treasurer through a Government depository.

The mint price of British standard gold bullion (11-12 fine) is £3 7s 10½d. The Bank of England is required by law to pay £3 7s 9d an ounce for standard gold (11-12 fine), being 1½d less than the actual mint price. Payment may be received in bank notes or gold coin.

### Mint Ratio

The ratio at which the weight of the gold dollar and silver dollar are fixed for coinage purposes, as distinguished from the *Market Ratio* (q. v.). The mint ratio now existing between the gold dollar and silver dollar is 15.988 plus, which is computed by dividing the weight of the silver in the silver dollar (371.25 grains) by the weight of the gold in the gold dollar (23.22 grains). The mint ratio differs from the market or commercial ratio which fluctuates in accordance with the varying market prices of the two metals. The impracticability of *Bimetallism* (q. v.) is due to the fact that it is impossible to maintain more than temporarily a coincidence between the market and mint ratios.

Since gold is the standard money and is coined without charge by statute it is worth as much as bullion as coin, and vice versa. Consequently the market price and mint price of gold is the same unless the coins have become abraded or mutilated. Since abraded coins are reduced in weight, more of them will be required when exchanged for new full weight coins. The market price of light weight coins, therefore, is above the mint price.

### Mint Remedy

See Remedy, Tolerance.

### Minute Book

See By-Laws.

### Minutes

See By-Laws.

### Mixed Collateral

See Collateral.

### Momentum of Sales

See Merchandise Turnover.

### Monetary Commission

See National Monetary Commission.

### Monetary Standard

See Monetary Unit, Standard of Value, Standard Money.

### Monetary Stock

The aggregate of all kinds of money issued by a Government, including that held in the Treasury, central banks, and in circulation. The monetary stock of the United States consists of that held in United States Treasury and mints, the Federal Reserve banks, and in circulation (other banks and in the hands of the public). (See Gold Reserve, Money Circulation.)

### Monetary Union

See Latin Union, Scandinavian Union.

### Monetary Unit

The coin selected by a Government to serve as the unit of account, and which by law contains a prescribed weight (and fineness) of the metal selected to serve as the standard of value. The gold dollar, although no longer coined, is the monetary unit of the United States. Since the United States possesses a decimal coinage system, the dollar is a multiple of fractional coins; and an aliquot part of coins of higher denomination. The weight of the standard unit is fixed at 23.22 grains of pure gold, or 25.8 grains of gold 9-10 fine. (See Gold Coins.)

Although many countries have selected gold as the standard of value, most of them have a different monetary unit, *e. g.*, dollar in the United States, pound sterling in England, franc in France, Lira in Italy, etc. (See Money of Account, Standard Money, Standard of value.)

### Money

A medium of exchange; an instrument, token, or expedient, whether metal or paper,

by which payment is made for the transfer of values from one person to another. "Money is that which passes freely from hand to hand throughout a community, and is received in full payment for commodities and services without reference to the character of the person rendering it." "Those instruments of general acceptability which pass freely from hand to hand as media of exchange."\* "Money is that valuable thing or economic good which possesses in any country or community universal acceptability as a medium of exchange or means of payment."† That commodity of intrinsic value acceptable in exchanges which has become by law or custom the universal tender for debt."‡

Scientifically, real money is a commodity or a representative of a commodity which mankind universally readily accepts in exchange for other commodities and services. It is therefore to be distinguished from promises to pay and other forms of credit instruments, *e. g.*, notes, checks, drafts, money orders, etc. In its popular sense, it is used to indicate any form of currency, gold or silver coin, gold or silver certificates, Government notes, or bank notes. Popularly, also, it is used as the equivalent of wealth or riches. In the banking sense, it means credit, lending power, or free capital awaiting investment. Banks are said to lend money when in reality they lend credit. In the legal sense, money is that which has been declared to be *Legal Tender* (q. v.). Money which is eligible to serve as bank reserves is usually defined by law. (See Lawful Money.)

The various forms of money used by the principal commercial nations of the world may be classified as follows:

#### PAPER MONEY

Government notes of promises to pay.

1. Secured by gold reserve, full or partial (specie reserve).
2. Secured by Government bonds (documentary reserve).
3. Unsecured (fiat money).

Bank notes or promises to pay.

1. Secured by gold reserve.
2. Secured by Government bonds.
3. Secured by commercial paper.
4. Secured by general assets.
5. Secured by any combination of the above.

Certificates of deposit of gold or silver.

\* R. T. Ely: *Outlines of Economics*, p. 251.

† J. F. Johnson: *Money and Currency*, p. 6.

‡ C. A. Conant: *The principles of Money and Banking*, p. 4.

#### METALLIC MONEY

Gold coin.

Full legal tender silver coin.

Subsidiary silver coins with limited legal tender.

Minor coins (nickel and bronze).

Money performs five chief functions: (1) medium of exchange; (2) common denominator or standard of value; (3) standard of deferred payments; (4) storehouse of value or unit of purchasing power; and (5) to serve as bank reserves. The qualities which money should possess to serve as a good medium of exchange are portability (high value in small bulk), durability (indestructibility), uniformity (homogeneity), divisibility, and cognizability. Gold combines these qualities better than any other metal and is the only form of money which possesses unlimited legal tender power and acceptability throughout the civilized world. As a standard of value money must possess value in itself and a high degree of stability of value. Gold also answers these requirements. As a standard of deferred payments and unit of purchasing power, a money must be selected which possesses not only stability of value but durability, qualities possessed by gold more than any other commodity.

The real value of money depends upon its purchasing power, *i. e.*, the quantity of other commodities or services that it will buy. Expressed in other terms, the value of money depends upon the general level of prices, and varies in inverse ratio. When prices rise the value of money falls and vice versa. (See Coinage, Currency, Gold Production, Gold Reserve, Fiat Money, Foreign Moneys, Mint, Monetary Stock, Monetary Union, Monetary Unit, Money Circulation, Paper Money, Quantity Theory of Money, Redemption of Money, Representative Money, Token Money, United States Money.)

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Years	Total	Per Capita
1800 .....	26,500,000	4.99
1840 .....	183,305,488	6.96
1840 .....	183,305,488	10.91
1850 .....	278,761,982	12.02
1860 .....	435,407,252	13.85
1870 .....	676,248,427	17.51
1875 .....	754,101,947	17.16
1880 .....	973,382,228	19.41
1885 .....	1,293,061,836	23.03
1890 .....	1,429,251,270	22.82
1895 .....	1,601,968,473	23.24
1900 .....	2,055,150,997	26.93
1905 .....	2,587,882,653	31.08
1910 .....	3,102,355,605	34.33
1911 .....	3,214,002,596	34.20
1912 .....	3,284,513,094	34.34
1913 .....	3,363,738,449	34.56
1914 .....	3,402,015,427	34.35
1915 .....	3,569,219,574	35.44
1916 .....	4,024,130,567	39.29
1917 .....	4,763,575,632	45.74
1918 .....	5,379,427,424	50.81
1919 .....	5,766,029,973	54.33
1920 .....	6,087,555,087	57.21
1921* .....	4,842,584,404	44.80
1922* .....	4,374,015,037	39.86
1923* .....	4,729,789,527	42.51

\* July 1.

### Moneyed Corporation

A corporation engaged in banking or related business, such as a trust company, savings bank, mortgage company, title insurance company, investment company, safe deposit company, personal loan brokers, building and loan association, savings association, etc.

### Money Market

This term is a misnomer, since in the strict sense, there is no market place (except for call loans, see *Call Money Market*), nor is money lent. In reality, this term is synonymous with interest rates for various classes of paper, and in any event would be more appropriately referred to as a credit market.

The money market consists of:

- (1) Lenders.
  - a. Banks and trust companies.
  - b. Discount houses.
  - c. Brokers.
- (2) Borrowers.
  - a. Commercial.
  - b. Speculative.
  - c. Agricultural.
  - d. Industrial, etc.

### Money Broker

A person who acts as intermediary between borrowers and lenders of money. The term is applied chiefly to brokers on the New York stock exchange who serve the function of bringing the lending banks and borrowing brokers together. These brokers receive no commission for placing call money and only 1-32 of 1 per cent. for time money.

### Money Circulation

The total and per capita circulation of money in the United States (average for the year) is given in the following table, compiled by the United States Treasury Department. For complete information giving consecutive years and kinds of money in circulation, see the United States Abstract of the Census.



- (3) Intermediaries.
  - a. Note brokers.
  - b. Money brokers.
  - c. Stock exchange brokers, etc.

None of these classes can be sharply defined, since banks or brokers may at different times exercise all these functions. The money market always relates to short-term loans, as distinguished from long-term loans, *e. g.*, bonds in which corporations or governmentalities are the borrowers, the public are the lenders, and underwriting syndicate the intermediaries.

The state of the money market, *i. e.*, prevailing interest and discount rates, depends upon four factors: (1) available supply of bank credit; (2) amount of personal credit exchangeable for bank credit; (3) amount of actual money in bank reserves, and ultimately the magnitude of the reserves in the central banking system, and (4) demand for credit from the various classes of consumers.

In the United States, interest rates are quoted for five classes of loans, as follows:

- (1) Call loans on Stock Exchange collateral.
- (2) Time loans for 2, 3, 4, 5 and 6 month maturities.
  - a. On mixed colloateral.
  - b. On industrial collateral.
- (3) Commercial paper with 4 to 6 month maturities.
  - a. Best names.
  - b. Other names.
- (4) Discount rates of the Federal Reserve bank.
  - a. On commercial paper collateral.
  - b. On government paper collateral.
- (5) Bankers' Acceptances for 1 to 6 month maturities.

The following are the *Money Market* quotations taken from the *New York Globe* as of March 23, 1923:

THE MONEY MARKET

CALL LOANS

Re- newals.	High.	Low.	Last.	Final.
5¼	6	5¼	6	5½

TIME LOANS

Mixed collateral, 60 to 90 days.....	5¼@5½
4, 5, and 6 months.....	5¼@5½
All-industrial collateral, 60 to 90 days .....	5¼@5½
4, 5, and 6 months.....	5¼@5½

COMMERCIAL PAPER

Best names, 4 to 6 months.....	5
Other names, 4 to 6 months.....	5¼

DISCOUNT RATES, FEDERAL RESERVE BANK

Commercial paper, 15 days.....	4½
60 to 90 days.....	4½
Liberty bonds, Victory notes, and Treasury certificates of indebtedness, 5 days.....	4½

BANKERS' ACCEPTANCES

Prime bankers' acceptances, eligible for purchase or rediscount by Federal Reserve banks. Rates quoted are for discount at purchase.

30 days .....	4⅛@4
60 days .....	4⅛@4
90 days .....	4⅛@4
4 months .....	4¼@4
6 months .....	4½@4¼
Non-member and private bankers, 60 to 90 days .....	4 @3¾
Call loans against acceptances.....	4½

(See Call Money Market, Legal Rate of Interest, Open Market Rates, Rediscount Rate.)

Money of Account

The kind of money in which the book-keeping of a nation is carried on. In the United States business houses keep accounts in dollars and cents; in England, in pounds, shillings, and pence; in France, in francs and centimes, etc.

Money Orders

A form of credit instrument calling for the payment of money which provides a safe and convenient means of remitting funds by persons having no checking account. There are three parties to a money order; the remitter (payer), the payee, and the drawee. Money orders are issued by three types of organizations; the Post Office Department, express companies, and a number of the large banks, the former being most commonly used.

Postal money orders are of two kinds, domestic and international. Domestic money orders are those payable in territorial United States, and its outlying possessions; also in Canada, Cuba, Bermuda, and a number of the West Indian islands. International money orders are those payable in foreign countries.

Money orders may be secured at practically any post office in the United States. The first step is to fill out an application upon which the name and address of the payee and the remitter are stated together with the amount of money which it is desired to send. Upon receipt of the application with the

amount to be sent plus the fee, the postmaster or postal clerk issues the money order which is addressed to the postmaster of the town or city in which the payee is located. The remitter then sends the money order to the payee, who by presenting it at the post office where he lives, will receive payment in cash upon proper identification.

The maximum amount for which a single money order may be issued is \$100, although additional orders can be bought on the same day, if it is desired to send a larger sum. Applications must be preserved at the issuing post office for three years from date of issue.

Although money orders are issued against a designated post office, any money order purchased in territorial United States may be cashed at any money order post office in territorial United States if presented for payment on or before the expiration of the thirtieth day following the date of issue. If presented at a later date and within one year from the last day of the month in which they are issued, they are payable only at the office designated in the money order as the paying office, or repaid at the issuing office. The holder is required to receipt a money order before it is paid.

Postal money orders may be transferred by indorsement but only one indorsement is permitted. Most banks will accept money orders for credit of depositors' accounts. Bank stamps are not regarded as indorsements.

Application for, and method of issuing international money orders by the Post Office Department, are similar to that of handling domestic money orders, except that the fees are higher. International money orders are issued in United States currency and not in that of a foreign country.

The fees charged for issuing domestic and international money orders together with instructions to applicants, as issued by the Post Office Department, are reproduced on the following page.

(See Bank Money Order, Express Company Money Order.)

### Money Pool

A pool formed by banks to raise funds to supply the need of Stock Exchange brokers in time of need, and when insufficient supplies are offered in the open market. (See Call Money Market.)

### Money Rates

See Discount, Interest, Legal Rate of Interest, Money Market, Rediscount Rate.

### Moneys of the World

See Foreign Moneys.

### Money Transfer

The transmission of funds from one place to another by means of the public or private telegraph. The larger offices of the telegraph companies provide for the transfer of funds by wire to other important centers. The paying office requires the person presenting the telegram that requests payment to prove identification, unless identification is waived.

Money transfers are also made by means of private telegraph lines controlled by the larger banks, including the Federal Reserve banks. Suppose, for instance, that Bank B of Joliet, Illinois, which normally maintains balances with Chicago bank A, and a New York bank C, wishes to place itself in immediate possession of New York funds, which have suddenly become exhausted. Supposing banks A and B are correspondents with large reciprocal balances, bank B may instruct bank A to telegraph funds for its account with bank C. Upon receipt of the instructions over the private wire, therefore, bank C will credit account of bank B and charge the account of bank A. At the same time bank A will charge the account of bank C. Thus a transfer of funds has occurred without involving actual currency shipments. Confirmatory advices will be sent by mail from bank A to bank C, and return advices from bank C to bank A.

### Money Trust

In 1912, House Committee of Congress with Representative Pujo as chairman, made an investigation of New York money market which, it was claimed, was controlled by a comparatively small group of men in Wall street. The results of the inquiry, however, were not startling and proved disappointing to the agitators. The report indicated that the New York Stock Exchange was never a part of a money trust, or in any way under the control of the large banks or moneyed interests. The majority report was "unable to say that the existence of the money trust has been established in that broad, bald sense of the term, although the committee regrets to find that, even adopting that extreme definition, surprisingly many of the elements of such a combination exist."

### Money Value

The actual money cost of an asset, particularly a security, as distinguished from its par value, or trading value.



DOMESTIC RATES

Table No. 1

WHEN PAYABLE IN BAHAMAS, BERMUDA, BRITISH GUIANA, BRITISH HONDURAS, CANADA, CANAL ZONE, CUBA, MARTINIQUE, NEWFOUNDLAND, THE PHILIPPINE ISLANDS, THE UNITED STATES POSTAL AGENCY AT SHANGHAI (CHINA) AND CERTAIN ISLANDS IN THE WEST INDIES, LISTED IN THE REGISTER OF MONEY ORDER OFFICES.

Use the Domestic form for these Orders.

For Orders from		
From	\$00.01 to \$2.50.....	3 cents
"	\$2.51 to \$5 .....	5 cents
"	\$5.01 to \$10 .....	8 cents
"	\$10.01 to \$20 .....	10 cents
"	\$20.01 to \$30 .....	12 cents
"	\$30.01 to \$40 .....	15 cents
"	\$40.01 to \$50 .....	18 cents
"	\$50.01 to \$60 .....	20 cents
"	\$60.01 to \$75 .....	20 cents
"	\$75.01 to \$100 .....	30 cents

INTERNATIONAL RATES

Table No. 2

WHEN PAYABLE IN BOLIVIA, CHILE, COSTA RICA, DENMARK, FRANCE, GREAT BRITAIN AND IRELAND, HONDURAS, HONGKONG, ITALY, JAPAN, LUXEMBURG, MEXICO, NETHERLANDS, NEW SOUTH WALES, NEW ZEALAND, NORWAY, PERU, QUEENSLAND, RUSSIA, SALVADOR, SOUTH AUSTRALIA, SWEDEN, SWITZERLAND, TASMANIA, UNION OF SOUTH AFRICA,\* URUGUAY AND VICTORIA.

Use the International form for these Orders

For Orders from	
From	\$00.01 to \$10.....10 cents
"	\$10.01 to \$20.....20 cents
"	\$20.01 to \$30.....30 cents
"	\$30.01 to \$40.....40 cents
"	\$40.01 to \$50.....50 cents
"	\$50.01 to \$60.....60 cents
"	\$60.01 to \$70.....70 cents
"	\$70.01 to \$80.....80 cents
"	\$80.01 to \$90.....90 cents
"	\$90.01 to \$100.....1 dollar

Observe that for Orders payable in the countries referred to in Table No. 1, only the Domestic rates are to be charged and the Domestic forms are to be used.

Take notice that the maximum amount for which a single Money Order may be drawn in the United States is \$100.00.

There is no limitation to the number of Orders that may be issued, in one day, to a Remitter, in favor of the same Payee.

\* The Union of South Africa comprises the provinces of the Cape of Good Hope (formerly Cape Colony), the Transvaal, the Orange Free State, (formerly Orange River Colony) and Natal (including Zululand).

INSTRUCTIONS

In the application the given name of the remitter and payee, or initials thereof, should precede their surnames respectively. If the payee has only one given name, it should be written in full, if known to the remitter. For example, the name John Jones should be so written, and not as J. Jones. The given name or names of a married woman should be stated, and not those of her husband. For example, Mrs. Mary J. Brown should not be described as Mrs. William H. Brown, unless her own given names or the initials thereof are unknown to the remitter. Observance of these rules will tend to prevent mistakes and delay in payment.

Names of persons, places and streets, as well as numbers and amounts, should be written in full and in the plainest manner possible.

The postmaster must refuse to issue an international order payable to any person, if the surname and the initial letters of that person's given names are not furnished by the applicant, unless the payee be a peer or a bishop, in which case his ordinary title is sufficient. If the payee be a firm, the usual commercial designation of such firm will suffice, such as "Baring Bros.," "Smith & Son," "Jones & Co."

If the name and address of the payee, as furnished in the application, cannot be transcribed accurately at the issuing office, the remitter should be requested to write the same in his own language, on Form 6083, which should be attached to the advice and forwarded to the exchange office. In filling out the form 6083 Hebrew characters are forbidden.

FEEES FOR POSTAL MONEY ORDERS

Monometallism

A system in which only gold or some other metal (silver if not gold) is made the basis of the standard money of a nation, other metals being used for subsidiary monetary purposes only. This means that the coins of only one metal are endowed with full legal tender qualities and are coined without limitation as to quantity. Most progressive commercial nations now have a monometallic system, also known as the *Single Standard*,

(q. v.), and is to be distinguished from *Bimetallism* (q. v.). (See Standard Money.)

Moral Risk

That part of the risk involved in loaning money which depends upon the integrity or honesty of the borrower or prospective borrower. In one-name, straight, or uncollateralized loans, if not all loans, the moral risk is the most important of all the elements of the credit. The personal equation domi-



nates all others, since without character and integrity no person can be trusted, irrespective of the ability and property he may possess. In judging the moral risk involved in the application for a loan several elements must be investigated, *e. g.*, reputation for honesty, sobriety, veracity and standard of business ethics. Does the risk make a practice of "welching" on contracts when the market goes against him? Does he engage in unfair competition? Is he conservative in his commitments? Are his past performances and antecedent connections above reproach? What reputation does he have in the trade and among his banking connections? These are some of the questions to be asked in measuring the moral risk. (See Business Risk, Credit, Credit Risk, Property Risk.)

### Moratorium

An order by a Government making it lawful to defer payment of all or certain kinds of debts for a certain period of time beyond the original maturity in order to prevent national bankruptcy or collapse of credit by legally protecting debtors as against their creditors in times of public danger. Holdsworth defines a moratorium as "an official declaration or decree by the Government postponing all or certain types of maturing debts for a given period."\*

### Morris Plan Company

An industrial or "poor man's bank" organized chiefly to permit the small wage earner with character and earning power to borrow money at reasonable rates, one object of the institution being to dislodge the loan sharks.

These banks derive their name from Mr. Arthur J. Morris who, after investigating the co-operative banks of Europe, founded the first Morris Plan Company in Norfolk, Va., in 1910. In 1920, 103 such banks were in operation in the United States. Each of these banks is named after the city in which it is domiciled, *e. g.*, Morris Plan Company of Brooklyn, a central institution. The Industrial Financial Corporation of New York serves as a parent bank for the local independent companies. Loans are made to, and time deposits accepted, from workmen, clerks, small tradesmen and professional men. The principles upon which the bank is founded are that character plus earning power is the proper basis for credit; that loans made should be commensurate to the earning power

of the borrower and retired by an amortization plan; and that money borrowed should be used for some important and useful purpose. They are authorized to make loans from \$50 to \$5,000 at a fair rate of interest.

One feature of the Morris Plan companies is that of insuring the lives of borrowers through the Morris Plan Insurance Society. Borrowers may procure a life insurance policy for the full amount of their loans, which will be applied in payment of such loans and the remainder, in the case of death, paid to the family or estate, thus relieving the co-makers and dependents from responsibility. The Morris Plan Insurance Society also insures the lives of investors by means of certificates issued by the Morris Plan companies. Morris Plan companies operate under the supervision of the banking departments of the various states.

### Mortgage

Technically, a conditional deed conveying or transferring title to the property of the mortgagor (owner and borrower) to the mortgagee (lender); an instrument signed, sealed and given by the borrower to the lender, or to a third party as trustee, and is conditional in that it is void if the conditions imposed are fully satisfied, *i. e.*, the payment of the interest and principal when due. It is a method of securing a loan upon real estate in the case of failure of the borrower to pay.

In other words, whereas, a mortgage, technically, is a conveyance, the tendency of modern courts is to rather regard it as a lien and as a method of securing payment for a debt.

The mortgagee, *i. e.*, lender, should make certain that the title to mortgaged property is in the name of the mortgagor. A lawyer may be engaged to search the title, or else the services of a title insurance company may be secured. These companies make a business of searching titles and guaranteeing their validity. An abstract of title is given by the lawyer or title insurance company to show the succession of ownership of the property and the encumbrances thereon, if any. Whenever a mortgage covers buildings or other property destructible by fire, the property should be adequately insured.

When the mortgage has been delivered to the mortgagee it should be recorded in the office of the registrar of deeds at the county seat. This is necessary in order to circumvent the possibility of a dishonest mortgagor giving a subsequent mortgage upon the property which may be recorded prior to the

\* Money and Banking, page 357.

first. (See Farm Mortgages, Mortgage Bonds, Mortgage Certificates, Mortgage Loans.)

A typical form of mortgage is reproduced below:

THIS indenture, made the ..... day of ....., in the year of nineteen hundred and ....., between ..... of ....., party of the first part, and ..... of ....., party of the second part.

Whereas, the said ....., is justly indebted to the said party of the second part in the sum of ..... dollars, lawful money of the United States, secured to be paid by his certificate bond or obligation, bearing even date herewith, conditioned for the payment of the said sum of ..... dollars, on the ..... day of ....., nineteen hundred and ....., and the interest thereon, to be computed from ....., at the rate of ..... per centum per annum, and to be paid semi-annually on the first day of January and July in each and every year until the whole of said principal sum shall be paid.

It being thereby expressly agreed that the whole of the said principal sum shall become due after default in the payment of interest, taxes, or assessments, as hereinafter provided.

Now this indenture witnesseth: That the said party of the first part, for the better securing the payment of the said sum of money mentioned in the condition of the said bond or obligation, with interest thereon, and also for and in consideration of one dollar paid by the said party of the second part, the receipt whereof is hereby acknowledged, doth hereby grant and release unto the said party of the second part, and to his heirs, (or successors) and assigns forever (description of the property), together with the appurtenances, and all the estate and rights of the party of the first part in and to said premises.

To have and to hold the above-granted premises unto the said party of the second part, his heirs and assigns forever.

Provided always that if the said party of the first part, his heirs, executors, or administrators, shall pay unto the said party of the second part, his executors, administrators, or assigns, the said sum of money mentioned in the condition of the said bond or obligation, and the interest thereon, at the time and in the manner mentioned in the said condition, that then these presents, and the estate

hereby granted, shall cease, determine and be void.

And the said party of the first part covenants with the party of the second part as follows:

First. That the party of the first part will pay the indebtedness as hereinbefore provided; and if default be made in the payment of any part thereof, the party of the second part shall have power to sell the premises therein described, according to law.

Second. That the party of the first part will keep the buildings on the said premises insured against loss by fire for the benefit of the mortgagee.

Third. And it is hereby expressly agreed that the whole of said principal sum shall become due at the option of the said party of the second part after default in the payment of interest for ..... days or after default in the payment of any tax or assessment for ..... days, after notice and demand.

In witness whereof, the said party of the first part hath hereunto set his hand and seal, the day and year first above written.

In the presence of .....,

(Signature and Seal.)

(Wife's signature, if married.)

## Mortgage Bonds

Bonds secured by a mortgage on property, whether real or personal, or both. Mortgage or secured bonds are to be distinguished from debenture or unsecured bonds. In the United States mortgage bonds are more popular than debentures, whereas the reverse is the case in England. (See Consolidated Mortgage Bonds, First Mortgage Bonds, General Mortgage Bonds, Refunding Mortgage Bonds, Second Mortgage Bonds, etc.)

## Mortgage Certificates

A modified form of mortgage or real estate bond, also known as mortgage participation certificates. Many mortgage companies now issue mortgage certificates, and usually guarantee the payment of both interest and principal, based upon and representing an interest in first mortgages which they own. There are several types of mortgage certificates. In some cases, certificates represent shares or participations in a specific bond and mortgage of large denomination held by the mortgage company and in which a precise description of the property securing the mortgage is recited. In other cases, the cer-

tificates are secured by a general pledge of mortgages, equal in value to the certificates which are not specifically enumerated or described but deposited with a trustee. Mortgages so deposited are accompanied by: (1) a certificate of appraisal showing that the value of the property covered by the mortgage is at least twice the principal of said mortgage; (2) policy of fire insurance fully protecting the holders of the certificates against loss in case of fire; and (3) policy of title insurance, guaranteeing the validity of the mortgage.

First mortgage certificates on property in New York state are legal investments for trust funds and are exempt from personal property taxation in New York state.

### **Mortgage Collateral Trust Bonds**

Same as *Collateral Mortgage Bonds* (q. v.).

### **Mortgage Company**

See Farm Mortgage Company, Investment Company.

### **Mortgage Debentures**

Mortgage bonds; a title used in countries where debenture is synonymous with bond.

### **Mortgagee**

See Mortgage.

### **Mortgage Investment Company**

See Farm Mortgage Company, Investment Company.

### **Mortgage Loan and Investment Company**

Same as Mortgage Company. (See Farm Mortgage Company, Investment Company.)

### **Mortgage Loans**

Loans made on real estate collateral, urban, or rural, residential or business, in which a mortgage is given to secure payment of principal and interest. This class of loans is specialized in by savings banks, mortgage investment companies, building and loan associations, farm mortgage companies, etc. Mortgage loans may also be made by National banks (except when located in a central reserve city) and by state banks and trust companies, although the restrictions upon mortgage loans made by national banks are more stringent than for the other types of banks. For instance, while in New York State banks are required to have only 15 per cent. margin

on first mortgage real estate loans, a National bank may only loan 50 per cent. of the appraised value.

The papers incidental to a mortgage loan are: (1) note or bond (as evidence of debt); (2) mortgage duly executed (as security for loan); (3) certificate of appraisal (indicating the value of the mortgaged property and its excess of value over the mortgage); (4) abstract of title, or policy of title insurance, indicating that there are no prior liens against the property and in the case of the policy of title insurance, guarantee the validity of the title; and (5) insurance papers (to protect the lender against loss in case of destruction of the mortgaged property by fire.)

In applying for a mortgage loan upon city property, the applicant fills in a blank, provided by the lending institution, giving the following information: (1) amount of money desired; (2) location of property; (3) dimensions of ground; (4) dimensions of building; (5) building materials; (6) purposes for use; (7) value of ground; (8) value of building; (9) annual rental; (10) amount of insurance. The signature of the bondsman or mortgagor (borrower) is then attached to the application.

The essentials of security in mortgage loans are: (1) extent of the margin of safety, *i. e.*, excess of the appraised value over the total encumbrances on the property; (2) possibility of depreciation in neighborhood values; (3) earning power of the property in rentals and the amount of their excess over taxes, insurance, repairs, and all other charges; (4) adaptability of buildings for other uses; (5) location with reference to transit facilities. (See Farm Mortgage Company, Farm Mortgages.)

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### **Mortgage Participation Certificates**

See Mortgage Certificates.

### **Mortgagor**

See Mortgage.

### **Move**

A stock market expression to denote an upward or downward tendency in the price of a particular stock or in the general market, brought about by the appearance of favorable or unfavorable conditions, or by pool interests or public participation.



## Movement

See Swings.

## Movement of Crops

The principal grain crops are moved from the farms to the milling centers and eastern seaboard for export trade in the interval from August to October, the peak usually being reached in September. On account of the demand for money and credit required by the purchasers to pay the farmers at this period, large withdrawals of deposits are made from the Eastern banks by Western banks. After settlement with the farmers has been made and the farmers in turn pay their debts and make their autumn purchases, these funds gradually find their way back to the East as deposits in the larger banks of the money centers. The crop moving period is, for this reason, a period of money strain, and is usually accompanied by temporary higher money rates, especially affecting the New York call money market, the first to feel the influence of a money squeeze. It is significant that most of the panics have originated during the crop moving period on account of the intensity of the demand for funds at this time.

With the establishment of the Federal Reserve System and the ease with which banks can secure funds through the rediscount process from the Reserve banks, the crop moving period is passed without the same fear of a money disturbance that formerly attended it.

## Multiple Currency Bonds

Bonds the principal and interest of which are payable in the currencies of several nations. A number of European Government issues are of this class, *e. g.*, Government of the Kingdom of Norway  $3\frac{1}{2}$  per cent. tri-currency external railway loan of 1904, the interest coupons of which may be presented for collection in English sterling, Norwegian kroner, or French francs.

## Municipal Bonds

Bonds which are direct obligations of a county, city, town, village, or other civil division of a state, as distinguished from Government bonds, state bonds, and bonds of business corporations. Municipal bonds constitute one of the subdivisions of civil issues. The fundamental difference between municipal bonds and corporation bonds is that whereas the latter are retired out of earnings, municipal bonds are paid off through

taxes levied upon the property located in the civil division which issues them.

Municipal bonds are issued for the following public purposes: school houses and equipment, water works and mains, public buildings, street improvements, sewers, drainage, irrigation, and reclamation, parks and museums, and for refunding maturing issues, etc.

Municipal bonds are never secured by a specific pledge of collateral, but payment of principal and interest is assured through the taxing power of the issuing municipality, provided they have been legally issued. Legality (or validity) of issue is the first and fundamental consideration in testing the safety of municipal bonds. If the bonds comply with all the laws of the Government and the state in which the municipality is located, they must be paid. Bondholders have power to enforce collection of taxes through an increase in the tax-rate (up to a limited per cent.) sufficient to pay the interest on any legally issued municipal bonds. Other considerations of lesser importance are the good faith of the issuing community (as shown by past records), financial competency of the community's officials, and financial statement. With the exception of the bonds of the United States Government and those of a few European nations, no other class of bond issues has a record of fewer defaults.

Since municipal bonds are not subject to fluctuating earnings and bad management as are corporation bonds, they are free from the same fluctuating price range as the latter. Municipal bond prices fluctuate with interest rates, and are not usually affected by business conditions. The rate of interest which they bear depends upon a number of variables including (1) the size and importance of the issuing municipality; (2) section of the country; (3) past record of the issuing municipality, and (4) financial statement. Due to their intrinsic strength, municipal bonds can be marketed at a lower rate of interest than any other class of bonded obligations, except Government and state bonds. While the stock exchanges do not provide a market for municipal bonds, a fair market is always provided by the many bond houses throughout the country which specialize in this class of securities. They are always acceptable as bank collateral.

Municipal bonds are sold by the issuing civil division, usually by inviting competitive public bids advertised for in a newspaper. When bids are offered, they must be sealed and accompanied by a certified check equal to a certain percentage of the issue. The

papers required of the issuing jurisdiction in authorizing a municipal bond issue are as follows:

(1) Copy of the minutes in which the resolution authorizing the issue, states (a) amount, (b) maturities, (c) purpose, (d) date of issue, (e) interest rate, (f) where payable, (g) form of bond, (h) vote of officers (trustees) of jurisdiction, (i) citation of law under which issued.

(2) Copy of bond form.

(3) Attorney's opinion as to legality, which states (a) that the resolution has been examined, (b) that the general code has been examined, and (c) that in his opinion the bonds are (or are not) a binding obligation.

(4) Transcript of Record of Proceedings, which includes (a) title of issue, (b) name of jurisdiction, (c) names of its regularly constituted officers, (d) fiscal statistics of jurisdiction, *e. g.*, population, debt, tax rate and application of taxes, (e) resolution to issue bonds, (f) legal notice of sale, (g) proof of publication, (h) bond and financial statement, (i) correspondence with successful purchaser, (j) minutes of meeting accepting successful bid, (k) treasurer's certificate that bonds have been paid for, (l) signature identification certificate containing signatures of officers who have signed the bonds, (m) satisfactory evidence that no litigation is threatened or pending against the jurisdiction affecting the validity of the bonds or the right of the officers to hold office.

It is fundamental that municipal bonds cannot be sold without the favorable opinion of a well-known attorney, or without a favorable financial statement. A good statement should show the following conditions or better:

(1) Ratio of assessed valuation to population should be at least 1,000 to 1; that is to say, the per capita property valuation should be at least \$1,000.

(2) Ratio of debt to assessed valuation should not be more than 10 per cent. In the majority of Eastern states, municipalities may not authorize bonds to exceed 10 per cent. of the assessed valuation of the taxable property.

The laws of some states protect the investor in municipal bonds to a greater extent than in others. The best laws are those that (1) provide for a limited debt and unlimited taxing power, (2) that wherever the tax rate is limited, it should not be below 3 per cent. unless special provision is made for exceeding this limit by popular vote or some other method, and (3) that sinking fund

and interest requirements are a first lien upon taxes.

Municipal bonds furnish one of the most desirable investment media, few classes being superior from the standpoint of safety, regularity of income, and collateral value. They are exempt from federal taxes. Municipal bonds outstanding in the United States amount to about five billion dollars.

The following is a common form of municipal bond:

UNITED STATES OF AMERICA,  
STATE OF OHIO,  
SANDUSKY COUNTY,  
BALLVILLE TOWNSHIP  
ROAD IMPROVEMENT BOND.

No..... 500 Dollars.

KNOW ALL MEN BY THESE PRESENTS: That Ballville Township in Sandusky County, Ohio, is indebted to and for value received hereby promises to pay the bearer Five Hundred Dollars, lawful money of the United States of America, on the 1st day of ....., A. D., 19....., with interest thereon at the rate of five and one-half per centum per annum, payable on April 1, 1920, and semi-annually thereafter on the 1st day of April and October in each year, on presentation and surrender of the annexed coupons bearing a fac-simile of the signature of the Clerk of said Township, as they severally become due. Both principal and interest of this bond are payable at the office of the Treasurer of said Township in Fremont, Ohio, and the said Township is hereby held and firmly bound, and its faith, credit and revenues are hereby pledged for the payment of the principal and interest hereof at maturity.

This bond is one of a series of bonds of like date, tenor and effect, except as to time of payment, aggregating \$10,000.00, issued by the Trustees of said Township for the purpose of resurfacing, repairing and improving the existing public highways of said township, under and by authority of and in accordance and full compliance with Sections 3295 and 3939 of the General Code of Ohio, and a resolution duly and regularly adopted by the Township Trustees of said Township on the 26th day of April, A. D., 1919.

And it is hereby certified, recited and declared that in the legislation under which the indebtedness evidenced by said bonds is incurred provision has been made for the levying and collecting annually by taxation of an amount sufficient to pay the interest on said bonds, and to provide a sinking fund



for their final redemption at maturity; and all acts, conditions and things required to be done precedent to and in the issuing of said bonds have been properly done, have happened, and have been performed in regular and due form, as required by law, and that said indebtedness does not exceed any statutory or constitutional limitation.

IN WITNESS WHEREOF, we, the undersigned, Township Trustees of the Clerk of Ballville Township in Sandusky County, Ohio, being duly authorized to execute this obligation on behalf of said Township, have hereto signed our names officially, as of the 1st day of June, A. D., 1919.

.....  
 .....  
 .....  
 Township Trustees.

.....  
 Township Clerk.

INTEREST COUPON.

No. 1 \$22.92

On April 1, 1920, Ballville Township in Sandusky County, Ohio, will pay the bearer Twenty-two Dollars and Ninety-two Cents, lawful money of the United States of America, at the office of the Treasurer of said Township in....., Ohio, being interest then due on its Road Improvement Bond dated June 1, 1919, No. ....

.....  
 Township Clerk.

**Municipals**

A market expression for *Municipal Bonds* (q. v.).

**Municipal Warrant**

As defined by the Federal Reserve Board Regulation F (Series of 1920) a warrant "shall be construed to mean bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, and the term *municipality* shall be construed to mean state, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage, and reclamation districts." Any Federal Reserve bank can purchase warrants issued by a municipality in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues, provided they are general obligations of the entire municipality and other conditions. (See Federal Reserve Board Regulations—F.)

An order given by a municipal official acting under proper authority upon the treasurer of such municipality to pay a certain person, firm, or corporation a certain sum of money for goods or services advanced, and which when presented to the treasurer, cannot be paid for lack of funds. When stamped as follows: "Presented but not paid on account of lack of funds. This warrant bears interest from this date until paid at the rate of ..... per cent." together with the treasurer's signature, the order becomes a warrant. The details of the warrant are then entered, *i. e.*, registered in the treasurer's records. A warrant may be payable to bearer or to order.

When a municipality having warrants outstanding accumulates funds available for their redemption, a call is inserted in a local newspaper announcing that warrants of designated numbers will be paid upon presentation, naming the date when interest will cease. A person who invests in warrants must provide some method of automatic notification so that when a call is announced, prompt presentation may be made in order to avoid loss of interest. (See Warrant.)

**Muniment of Title**

A muniment is a document by which rights are fortified or maintained. One of the legal characteristics of a bill of lading is that, beside being a receipt for goods and a contract to ship, it is a muniment of title. (See Bill of Lading.)

**Mutilated Currency**

Coins which are cut, punched, trimmed, etc., and paper money which is torn or badly worn.

About thirty per cent. of the paper money received by banks for deposit is so mutilated and worn as to be unfit for circulation. It devolves upon the banks dealing with the public to redeem such money and to pay out, so far as possible, only clean, crisp bills.

It is the function of Federal Reserve banks to provide new bills and coins in exchange for mutilated and worn ones. Redemption of uncurrent bills is best effected by exchanging them for new ones at the nearest Federal Reserve bank. Where a Federal Reserve bank is in the same city, this can be accomplished by direct delivery. Otherwise it is necessary to forward the currency by express, express and insurance charges being borne by the Federal Reserve bank.

Mutilated coins are also redeemable at the Federal Reserve banks. Mutilated and light



weight gold coins are not redeemable at face value if below the limit of tolerance. Since they are over-valued, mutilated and light weight silver dollars, subsidiary silver and minor coins are redeemable at face value.

Mutilated and torn paper currency is redeemable at face value, provided three-fifths or more of the bill remains. For less than three-fifths, but for two-fifths and more, a piece of paper money is redeemable at one-

half its face value. For less than two-fifths, a piece of paper money is worthless. If the holder of any portion of a mutilated bill will furnish an affidavit certifying that the missing portion has been destroyed, that piece of paper money will be redeemed at face value. (See Light Coin, Light Gold.)

### **Mutual Savings Bank**

See Savings Banks.

## N

### Naked Reserve

The reserve of a Federal Reserve bank after making adjustments for borrowing from and loans to other Federal Reserve banks, as distinguished from the actual reserve. Under the Federal Reserve Act, the Federal Reserve Board has power to require any Federal Reserve bank to rediscount paper held by another, *e. g.*, a Federal Reserve bank in a strong position may be required to rediscount the paper of another in a weak position. The actual reserve of each Federal Reserve bank does not exhibit its real strength or weakness and consequently the credit condition of the region served, because the actual reserve gives effect to inter-reserve borrowings and lendings. The naked, or adjusted reserve, is a fictitious figure, calculated to reveal the true strength of each regional reserve bank. It is ascertained by adding to the reserve bank's actual reserve the amount of its lendings (through rediscounts) to other Federal Reserve banks and subtracting them from the amount of its borrowings, if any. In this way the adjusted or naked reserve is correspondingly increased or diminished and the effect of inter-reserve bank rediscount operations is eliminated.

The following excerpt from the Federal Reserve Bulletin will serve to illustrate the effect of inter-reserve bank discount operations upon the reserve ratio of each reserve bank, as of April 22, 1921.

	District	Actual Per cent.	Adjusted Per cent.
No. 1	Boston .....	71.9	72.4
2	New York .....	53.9	54.6
3	Philadelphia .....	54.8	54.8
4	Cleveland .....	67.0	68.3
5	Richmond .....	42.7	37.6
6	Atlanta .....	45.7	45.7
7	Chicago .....	48.1	48.1
8	St. Louis .....	57.0	57.0
9	Minneapolis .....	39.8	39.8
10	Kansas City .....	42.3	42.3
11	Dallas .....	40.6	33.5
12	San Francisco .....	56.2	56.2
	System .....	54.1	54.1

### Name Day

See Settlement Days.

### Napoleon

The French gold twenty franc piece, approximately equivalent to \$3.86 in United States money. (See Foreign Moneys—France.)

### Narrow Market

A term used of the stock market to denote that the volume of business is light, trading inactive and that in many issues no sales are made at all. Because of the scarcity of, and spread between, bids and offers, relatively large changes in prices occur on a small volume of transactions.

Applied to a particular security, this term means that bids are infrequent and originate from but few sources. Thus, stocks of small companies not widely known, and stocks not listed on one of the large exchanges, usually have a narrow market. For that reason they usually sell at lower prices than listed stocks of equal earnings and property values, listed stocks commanding higher market quotations because they can be more readily disposed of without sacrifice.

### National Agricultural Credit Corporations

Banking corporations authorized by the Agricultural Credits Act of 1923. These corporations may be organized and controlled by private capital under the general supervision of the Comptroller of the Currency with a minimum capital stock of \$250,000. With certain limitations, National banks may subscribe to the capital stock of these corporations.

National agricultural credit corporations are empowered to make loans for agricultural purposes on chattels, live stock, growing crops and personal credit up to a period of nine months; except that in the case of breeding stock and dairy herds the period may be extended to three years. Against the paper thus discounted, debentures may be issued up to an amount to be prescribed by the Comptroller of the Currency. A class of rediscount banks is provided to facilitate the marketing of such debentures. (See Farm Credits Act.)

### National Bank

A bank incorporated under a charter granted by the Federal government upon the authority of the *National Bank Act* (q. v.). Under a recent amendment of the Act, National bank charters now have a duration of ninety-nine years, as against a former duration of twenty years. (See National Banking System.)

### National Bank Act

The Act which created the *National Banking System* (q. v.), passed February 25, 1863, but radically revised June 3, 1864. Neither the original nor amended act provided for the abandonment of circulating notes of state banks. A further amendment, passed in February, 1865, however, imposed a tax of 10 per cent. on state bank notes, effective August 1, 1866, after which state bank notes disappeared from circulation.

This Act has been amended in many particulars since its original passage, and the *Federal Reserve Act* (q. v.) may be regarded as a further extension of the law regulating national-chartered institutions.

"An act to provide for a national currency secured by a pledge of United States bonds, and to provide for the circulation and redemption thereof, approved June 3, 1864, shall be known as the 'National bank act.'" (Amendment of June 20, 1874, section 1.) (See National Bank System.)

### National Bank Call

The Comptroller of the Currency is required by law to call for a statement of condition of each National bank at least five times a year. Calls are made at irregular intervals for a statement as of some recent past date. This serves the purpose of preventing the banks from "window dressing", *i. e.*, temporarily placing themselves in a favorable condition in order to make a good impression. The statement of condition must be furnished within five days after the receipt of the Comptroller's notice, otherwise a penalty of \$100 a day for each day of delay, is exacted.

Before the Comptroller's call is announced, a preliminary letter is directed to each national bank from the Comptroller's office, enclosing blank reports and publishers' certificates for use at the time of the ensuing call.

In addition to the regular reports, the Comptroller of the Currency may require special reports, *e. g.*, (1) statement of loans distributed by states, or Federal Reserve dis-

tricts; (2) statement of deposits distributed by states, or Federal Reserve districts; (3) statement showing amounts loaned to stock exchange brokers on time and call, etc.

When the reports of National banks in pursuance of the Comptroller's call are received, they are examined, the results tabulated in the aggregate by cities, states and Federal Reserve districts, and made available to the public. This body of banking statistics is of great value to bankers and students of banking and when compared with the results of previous periods, show the trend of banking and credit conditions. (See Comptroller's Call.)

### National Bank Circulation

See National Bank Notes.

### National Bank Depository

See Depository.

### National Bank Examiner

The National Bank Act now provides for the periodic examination of National banks through a corps of bank examiners organized under the Comptroller of the Currency, who with the approval of the Secretary of the Treasury, is empowered to appoint civil persons to act as examiners. The duty of supervising bank examinations is delegated by the Comptroller of the Currency to the chief National bank examiner located in the office of the Comptroller of the Currency. The chief National bank examiner arranges the assignments for the corps of examiners which move from bank to bank, and make examinations in accordance with his instructions, and finally report in full. (See Bank Examination, Bank Examiners.)

### National Banking Association

Another name for National bank. This designation is employed throughout the National Bank Act.

### National Banking System

A system of numerous independent banks established under the authority of the *National Bank Act* (q. v.), an outgrowth of Civil War finance for the purpose of insuring the sale of Government bonds. Like the *Bank of England* (q. v.), National banks were first created primarily to provide funds for the Government. The plan of the system, outlined in 1861 by Salmon P. Chase, then Secretary of the Treasury, became a law February 25, 1863, but has since been amended many times.



The original act provided for the compulsory purchase by each bank to be organized of Government bonds up to at least one-third of the capital. Upon being deposited with the Treasurer of the United States, such bonds might be used as security for circulating notes equal in amount to 90 per cent. of their par value. Subsequently the act has been amended so that National banks are no longer required to purchase these bonds, which now provide security for circulating notes upon to 100 per cent. of their face. The maximum amount of circulating notes which may be issued is fixed by the capital stock; the minimum is one-fourth of the capital if less than \$150,000, and \$50,000 if the capital exceeds \$150,000.

Minimum limits are placed upon the capital required of National banks which varies with the population of the city or town in which the bank is located. Where the population is 3,000 or under the minimum capital is \$25,000; in places above 3,000 and not exceeding 6,000 the minimum capital is \$50,000; in towns above 6,000 and not exceeding 50,000 the minimum capital is \$100,000; and in cities above 50,000, the minimum capital requirement is \$200,000. Until the surplus amounts to 20 per cent. of the capital stock, National banks are required to carry at least one-tenth of their annual net profits to the surplus account.

All National banks are required to be members of the Federal Reserve bank of their district and to invest in the capital stock of such bank in the amount required by law.

National banks are chartered and supervised by a bureau in the Treasury Department, headed by the Comptroller of the Currency. Application for a charter, which is valid for 99 years and renewable, must be lodged with the Comptroller of the Currency, and contain the following information: (1) name and address of the prospective organizers (shareholders), at least five in number; (2) number of shares subscribed by each; (3) proposed title of bank, and (4) endorsement of project by three prominent officials. The chief organization papers are articles of association, organization certificate, oath of directors, signature of officers, by-laws, certificate as to payment of capital stock, and (if desired) order for notes for circulation purposes. In order that National banks may be readily identified as such, the law requires that the word *National* appear in the title, or that the initials *N. B. A.* (national banking association) or *N. A.* (national association) immediately follow the title.

The following general powers are granted to National banks: (1) general corporate powers, *i. e.*, to sue and be sued, etc.; (2) receive demand and time deposits; (3) discount notes; (4) lend on personal and collateral security with certain limitations on the amount to a single borrower; (5) lend on real estate security if not located in *Central Reserve Cities* (q. v.); (6) issue circulating notes on deposit of Government (pre-war) bonds; (7) hold real estate for own use or in payment of a defaulted loan; (8) make acceptances covering domestic, export, and import shipments of merchandise, or to create dollar exchange; (9) deal in foreign exchange; (10) issue letters of credit; (11) deal in gold coin and bullion; (12) maintain branches if converted from a state bank or trust company; (13) establish branches in foreign countries if capital and surplus is \$1,000,000 or over; (14) receive special deposits through custodianship accounts or the rental of safe deposit boxes; (15) exercise fiduciary powers if permission is granted by Federal Reserve Board and requirements of state are met; (16) borrow and rediscount from the Federal Reserve Bank; (17) invest in the stock of foreign banking corporations up to 10 per cent. of capital and surplus if \$1,000,000 or over, or up to 5 per cent. of capital and surplus, if less; (18) deal in United States Government securities; and (19) act as insurance agent in towns of less than 5,000.

National banks are preeminently commercial banks, although in the larger cities, they perform a great variety of services. Recent bank legislation has tended to eliminate the chief differences between the three principal bank types, *vis.*, National banks, state banks, and trust companies. In most states, trust companies are permitted to engage in commercial banking. Conversely, national and state banks are allowed (with certain restrictions) to establish trust departments. The great metropolitan banks, whether organized as National banks, state banks, or as trust companies, are veritable financial department stores. They aim to furnish not only such banking facilities as they are specifically empowered by law to perform, but to supplement these facilities with many refinements not mentioned in the law. There are over 7,000 National banks in the United States. (See Double Liability, Federal Reserve System, Limitations on Acceptance Credits, Limitations on Bank Loans, Limitations on Investments, Limitations on Total

Indebtedness of National Banks, National Bank Call, National Bank Examiner, National Bank Notes.)

### National Bank Notes

A form of currency issued by National banks under the authority of the *National Bank Act* (q. v.), and Federal Reserve Act, and also known as national currency. Prior to the Federal Reserve Act, National banks were required to purchase United States (pre-war) bonds, and deposit them with the United States Treasurer, as security for circulating bank notes issued. Under the Federal Reserve Act, the purchase of these bonds and the issue of circulating notes is no longer compulsory, but merely optional. If the notes are not issued, the bonds need not be purchased.

National bank notes are taxed according to the particular issue of eligible United States bonds purchased to secure them. In the case of 2 per cent. bonds the tax is  $\frac{1}{4}$  per cent. semi-annually; for 3 per cent. and 4 per cent. bonds the tax is  $\frac{1}{2}$  per cent. semi-annually.

Under the Federal Reserve Act, it is contemplated that the Federal Reserve banks will gradually purchase all the bonds now securing the circulating notes of the National banks, which eventually will disappear from circulation. A large number of these bonds have been taken over by the Federal Reserve banks, against which Federal Reserve bank notes have been issued. These notes share the identical characteristics of national bank notes. National banks are not required to relinquish the circulation privilege.

National bank notes are issued in denominations as follows: \$5, \$10, \$20, \$50, and \$100. They are engraved with green backs and bear a blue seal on the obverse side. The charter number of the National bank of issue must also appear on the obverse side.

As in the case of Federal Reserve bank notes, a 5 per cent. redemption fund in *Lawful Money* (q. v.), must be kept with the United States Treasurer by the National bank of issue for the redemption of these notes, should they be presented. This fund does not earn interest, and may not be considered as a part of the bank's legal reserve. National bank notes are redeemable in gold or lawful money at the office of the United States Treasurer, or at the bank of issue. They are not legal tender, but are receivable for all public dues, except duties on imports, and may be paid out by the Government for all purposes except interest on the public debt and redemption of National bank notes

No one has ever suffered a loss through holding these notes. (See National Banking System, United States Money.)

### National Bank Report

See National Bank Call.

### National Bankruptcy Act

The following is the text of the National Bankruptcy Act of July, 1898, with subsequent revisions:

#### DEFINITIONS.

Sec. 1. (a) The words and phrases used in this Act and in proceedings pursuant hereto shall, unless the same be inconsistent with the context, be construed as follows:

(1) "A person against whom a petition has been filed" shall include a person who has filed a voluntary petition; (2) "adjudication" shall mean the date of the entry of a decree that the defendant, in a bankruptcy proceeding, is a bankrupt, or if such decree is appealed from, then the date when such decree is finally confirmed; (3) "appellate courts" shall include the circuit courts of appeals of the United States, the supreme courts of the Territories, and the Supreme Court of the United States; (4) "bankrupt" shall include a person against whom an involuntary petition or an application to set a composition aside or to revoke a discharge has been filed, or who has filed a voluntary petition, or who has been adjudged a bankrupt; (5) "clerk" shall mean the clerk of a court of bankruptcy; (6) "corporations" shall mean all bodies having any of the powers and privileges of private corporations not possessed by individuals or partnerships, and shall include limited or other partnership associations organized under laws making the capital subscribed alone responsible for the debts of the association; (7) "court" shall mean the court of bankruptcy in which the proceedings are pending, and may include the referee; (8) "courts of bankruptcy" shall include the district courts of the United States and of the Territories, including *Porto Rico*, the Supreme Court of the District of Columbia, and the United States court for the District of Alaska; (9) "creditor" shall include any one who owns a demand or claim provable in bankruptcy, and may include his duly authorized agent, attorney, or proxy; (10) "date of bankruptcy" or "time of bankruptcy," or "commencement of proceedings," or "bankruptcy," with reference to time, shall mean the date when the petition was filed; (11) "debt" shall include any debt, demand, or claim provable in bankruptcy; (12) "discharge" shall mean the release of a bankrupt from all of his debts which are provable in bankruptcy, except such as are excepted by this Act; (13) "document" shall include any book, deed, or instrument in writing; (14) "holiday" shall include Christmas, the Fourth of July, the Twenty-second of February, and any day appointed by the President of the United States or the Congress of the United States as a holiday or as a day of public fasting or thanksgiving; (15) a person shall be deemed insolvent within the provisions of this Act whenever the aggregate of his property exclusive of any property which he may have conveyed, transferred, concealed, or removed, or permitted to be concealed or removed, with intent to defraud, hinder, or delay his creditors, shall not, at a fair valuation, be sufficient in amount to pay his debts; (16) "judge" shall mean a judge of a court of bankruptcy, not including the referee; (17) "oath" shall include affirmation; (18) "officer" shall include clerk, marshal, receiver, referee, and trustee, and the imposing of a duty upon or the forbidding of an act by any officer shall include his successor and any person authorized by law to perform the duties of such officer; (19) "persons" shall include corporations, except where otherwise specified, and officers, partnerships, and women,



and when used with reference to the commission of acts which are herein forbidden shall include persons who are participants in the forbidden acts, and the agents, officers, and members of the board of directors or trustees, or other similar controlling bodies of corporations; (20) "petition" shall mean a paper filed in a court of bankruptcy or with a clerk or deputy clerk by a debtor praying for the benefits of this Act, or by creditors alleging the commission of an act of bankruptcy by a debtor therein named; (21) "referee" shall mean the referee who has jurisdiction of the case or to whom the case has been referred, or by any one acting in his stead; (22) "conceal" shall include secrete, falsify, and mutilate; (23) "secured creditor" shall include a creditor who has security for his debt upon the property of the bankrupt of a nature to be assignable under this Act, or who owns such a debt for which some indorser, surety, or other persons secondarily liable for the bankrupt has such security upon the bankrupt's assets; (24) "States" shall include the Territories, Alaska, *Porto Rico*, and the District of Columbia; (25) "transfer" shall include the sale and every other and different mode of disposing of or parting with property, or the possession of property, absolutely or conditionally, as a payment, pledge, mortgage, gift, or security; (26) "trustee" shall include all of the trustees of an estate; (27) "wage-earner" shall mean an individual who works for wages, salary, or hire, at a rate of compensation not exceeding one thousand five hundred dollars per year; (28) words importing the masculine gender may be applied to and include corporations, partnerships, and women; (29) words importing the plural number may be applied to and mean only a single person or thing; (30) words importing the singular number may be applied to and mean several persons or things.

#### COURTS OF BANKRUPTCY

Sec. 2. The courts of bankruptcy as hereinbefore defined, viz., the district courts of the United States in the several States, the Supreme Court of the District of Columbia, the district courts of the several Territories, including *Porto Rico*, and the United States court in the District of Alaska, are hereby made courts of bankruptcy, and are hereby invested, within their respective territorial limits as established, or as they may be hereafter changed, with such jurisdiction at law and in equity as will enable them to exercise original jurisdiction in bankruptcy proceedings, in vacation in chambers and during their respective terms, as they are now or may be hereafter held, to (1) adjudge persons bankrupt who have had their principal place of business, resided, or had their domicile within their respective territorial jurisdictions for the preceding six months, or the greater portion thereof, or who do not have their principal place of business, reside, or have their domicile within the United States, but have property within their jurisdictions, or who have been adjudged bankrupts by courts of competent jurisdiction without the United States and have property within their jurisdictions; (2) allow claims, disallow claims, reconsider allowed or disallowed claims, and allow or disallow them against bankrupt estates; (3) appoint receivers or the marshals, upon application of parties in interest, in case the courts shall find it absolutely necessary, for the preservation of estates, to take charge of the property of bankrupts after the filing of the petition and until it is dismissed or the trustee is qualified; (4) arraign, try, and punish bankrupts, officers, and other persons, and the agents, officers, members of the board of directors or trustees, or other similar controlling bodies, of corporations for violations of this Act, in accordance with the laws of procedure of the United States in force, or such as may be hereafter enacted, regulating trials for the alleged violation of laws of the United States; (5) authorize the business of bankrupts to be conducted for limited periods by receivers, the marshals, or trustees, if necessary in the best interests of the estates, and allow such officers additional compensation for such services, as provided in section *forty-eight*; (6) bring in and substitute additional persons or parties in proceedings in bankruptcy when necessary for the

complete determination of a matter in controversy; (7) cause the estates of bankrupts to be collected, reduced to money and distributed, and determine controversies in relation thereto, except as herein otherwise provided; (8) close estates, whenever it appears that they have been fully administered, by approving the final accounts and discharging the trustees, and reopen them whenever it appears they were closed before being fully administered; (9) confirm or reject compositions between debtors and their creditors, and set aside compositions and reinstate the cases; (10) consider and confirm, modify or overrule, or return, with instructions for further proceedings, records and findings certified to them by referees; (11) determine all claims of bankrupts to their exemptions; (12) discharge or refuse to discharge bankrupts and set aside discharges and reinstate the cases; (13) enforce obedience by bankrupts, officers, and other persons to all lawful orders, by fine or imprisonment or fine and imprisonment; (14) extradite bankrupts from their respective districts to other districts; (15) make such orders, issue such process, and enter such judgments in addition to those specifically provided for as may be necessary for the enforcement of the provisions of this Act; (16) punish for contempts committed before referees; (17) pursuant to the recommendation of creditors, or when they neglect to recommend the appointment of trustees, appoint trustees, and upon complaints of creditors, remove trustees for cause upon hearings and after notices to them; (18) tax costs, whenever they are allowed by law, and render judgments therefor against the unsuccessful party, or the successful party for cause, or in part against each of the parties, and against estates, in proceedings in bankruptcy; (19) transfer cases to other courts of bankruptcy; (20) exercise ancillary jurisdiction over persons or property within their respective territorial limits in aid of a receiver or trustee appointed in any bankruptcy proceedings pending in any other court of bankruptcy. Nothing in this section contained shall be construed to deprive a court of bankruptcy of any power it would possess were certain specific powers not herein enumerated.

#### BANKRUPTS.

Acts of bankruptcy.  
Who may become bankrupts.  
Partners.  
Exemption of bankrupts.  
Duties of bankrupts.  
Death or insanity of bankrupts.  
Protection and detention of bankrupts.  
Extradition of bankrupts.  
Suits by and against bankrupts.  
Compositions, when confirmed.  
Compositions, when set aside.  
Discharges, when granted.  
Discharges, when revoked.  
Codebtors of bankrupts.  
Debts not affected by discharge.

Sec. 3. (a) Acts of bankruptcy by a person shall consist of his having (1) conveyed, transferred, concealed, or removed, or permitted to be concealed or removed, any part of his property with intent to hinder, delay, or defraud his creditors, or any of them; or (2) transferred, while insolvent, any portion of his property to one or more of his creditors with intent to prefer such creditors over his other creditors; or (3) suffered or permitted, while insolvent, any creditor to obtain a preference through legal proceedings, and not having at least five days before a sale or final disposition of any property affected by such preference vacated or discharged such preference; or (4) made a general assignment for the benefit of his creditors, or, being insolvent, applied for a receiver or trustee for his property or because of insolvency a receiver or trustee has been put in charge of his property under the laws of a State, of a Territory, or of the United States; or (5) admitted in writing his inability to pay his debts and his willingness to be adjudged a bankrupt on that ground.

(b) A petition may be filed against a person who is insolvent and who has committed an act of bankruptcy within four months after the commission of such act. Such time shall not expire until four months after (1) the date of the recording



or registering of the transfer or assignment when the act consists in having made a transfer of any of his property with intent to hinder, delay, or defraud his creditors or for the purpose of giving a preference as hereinbefore provided, or a general assignment for the benefit of his creditors, if by law such recording or registering is required or permitted, or, if it is not, from the date when the beneficiary takes notorious, exclusive, or continuous possession of the property unless the petitioning creditors have received actual notice of such transfer or assignment.

(c) It shall be a complete defense to any proceedings in bankruptcy instituted under the first subdivision of this section to allege and prove that the party proceeded against was not insolvent as defined in this Act at the time of the filing of the petition against him, and if solvency at such date is proved by the alleged bankrupt the proceedings shall be dismissed, and under said subdivision one the burden of proving solvency shall be on the alleged bankrupt.

(d) Whenever a person against whom a petition has been filed as hereinbefore provided under the second and third subdivisions of this section takes issue with and denies the allegations of his insolvency, it shall be his duty to appear in court on the hearing, with his books, papers, and accounts, and submit to an examination, and give testimony as to all matters tending to establish solvency or insolvency, and in case of his failure to so attend and submit to examination the burden of proving his solvency shall rest upon him.

(e) Whenever a petition is filed by any person for the purpose of having another adjudged a bankrupt, and an application is made to take charge of and hold the property of the alleged bankrupt, or any part of the same, prior to the adjudication and pending a hearing on the petition, the petitioner or applicant shall file in the same court a bond with at least two good and sufficient sureties who shall reside within the jurisdiction of said court, to be approved by the court or a judge thereof, in such sum as the court shall direct, conditioned for the payment, in case such petition is dismissed, to the respondent, his or her personal representatives, all costs, expenses, and damages occasioned by such seizure, taking, and detention of the property of the alleged bankrupt. If such petition be dismissed by the court or withdrawn by the petitioner, the respondent or respondents shall be allowed all costs, counsel fees, expenses, and damages occasioned by such seizure, taking, or detention of such property. Counsel fees, costs, expenses, and damages shall be fixed and allowed by the court, and paid by the obligors in such bond.

Sec. 4. (a) Any person, except a municipal, railroad, insurance, or banking corporation, shall be entitled to the benefits of this Act as a voluntary bankrupt.

(b) Any natural person, except a wage-earner or a person engaged chiefly in farming or the tillage of the soil, any unincorporated company, and any moneyed, business, or commercial corporation, except a municipal, railroad, insurance, or banking corporation, owing debts to the amount of one thousand dollars or over, may be adjudged an involuntary bankrupt upon default or an impartial trial, and shall be subject to the provisions and entitled to the benefits of this Act. The bankruptcy of a corporation shall not release its officers, directors, or stockholders, as such, from any liability under the laws of a State or Territory or of the United States.

Sec. 5. (a) A partnership, during the continuation of the partnership business, or after its dissolution and before the final settlement thereof, may be adjudged a bankrupt.

(b) The creditors of the partnership shall appoint the trustee; in other respects so far as possible the estate shall be administered as herein provided for other estates.

(c) The court of bankruptcy which has jurisdiction of one of the partners may have jurisdiction of all the partners and of the administration of the partnership and individual property.

(d) The trustees shall keep separate accounts of

the partnership and of the property belonging to the individual partners.

(e) The expenses shall be paid from the partnership property and the individual property in such proportions as the court shall determine.

(f) The net proceeds of the partnership property shall be appropriated to the payment of the partnership debts, and the net proceeds of the individual estate of each partner to the payment of his individual debts. Should any surplus remain of the property of any partner after paying his individual debts, such surplus shall be added to the partnership assets and be applied to the payment of the partnership debts. Should any surplus of the partnership property remain after paying the partnership debts, such surplus shall be added to the assets of the individual partners in the proportion of their respective interests in the partnership.

(g) The court may permit the proof of the claim of the partnership estate against the individual estates, and vice versa, and may marshal the assets of the partnership estate and individual estates so as to prevent preferences and secure the equitable distribution of the property of the several estates.

(h) In the event of one or more but not all of the members of a partnership being adjudged bankrupt, the partnership property shall not be administered in bankruptcy, unless by consent of the partner or partners not adjudged bankrupt; but such partner or partners not adjudged bankrupt shall settle the partnership business as expeditiously as its nature will permit, and account for the interest of the partner or partners adjudged bankrupt.

Sec. 6. (a) This Act shall not affect the allowance to bankrupts of the exemptions which are prescribed by the State laws in force at the time of the filing of the petition in the State wherein they have had their domicile for the six months or the greater portion thereof immediately preceding the filing of the petition.

Sec. 7. The bankrupt shall (1) attend the first meeting of his creditors, if directed by the court or a judge thereof to do so, and the hearing upon his application for discharge, if filed; (2) comply with all lawful orders of the court; (3) examine the correctness of all proofs of claims filed against his estate; (4) execute and deliver such papers as shall be ordered by the court; (5) execute to his trustee transfers of all his property in foreign countries; (6) immediately inform his trustees of any attempt by his creditors or other persons, to evade the provisions of this Act, coming to his knowledge; (7) in case of any person having to his knowledge proved a false claim against his estate, disclose that fact immediately to his trustee; (8) prepare, make oath to, and file in court within ten days, unless further time is granted, after the adjudication, if an involuntary bankrupt, and with the petition, if a voluntary bankrupt, a schedule of his property, showing the amount and kind of property, the location thereof, its money value in detail, and a list of his creditors, showing their residences, if known, if unknown, that fact to be stated, the amounts due each of them, the consideration thereof, the security held by them, if any, and a claim for such exemptions as he may be entitled to, all in triplicate, one copy of each for the clerk, one for the referee, and one for the trustee; and (9) when present at the first meeting of his creditors, and at such other times as the court shall order, submit to an examination concerning the conducting of his business, the cause of his bankruptcy, his dealings with creditors and other persons, the amount, kind, and whereabouts of his property, and, in addition, all matters which may affect the administration and settlement of his estate; but no testimony given by him shall be offered in evidence against him in any criminal proceeding: *Provided, however,* That he shall not be required to attend a meeting of his creditors, or at or for an examination at a place more than one hundred and fifty miles distant from his home or principal place of business, or to examine claims except when presented to him, unless ordered by the court, or a judge thereof, for cause shown; and the bankrupt shall be paid his actual expenses

from the estate when examined or required to attend at any place other than the city, town, or village of his residence.

Sec. 8. (a) The death or insanity of a bankrupt shall not abate the proceedings, but the same shall be conducted and concluded in the same manner, so far as possible, as though he had not died or become insane; *Provided*, That in case of death the widow and children shall be entitled to all rights of dower and allowance fixed by the laws of the State of the bankrupt's residence.

Sec. 9. A bankrupt shall be exempt from arrest upon civil process except in the following cases: (1) When issued from a court of bankruptcy for contempt or disobedience of its lawful orders; (2) when issued from a State court having jurisdiction, and served within such State, upon a debt or claim from which his discharge in bankruptcy would not be a release, and in such case he shall be exempt from such arrest when in attendance upon a court of bankruptcy or engaged in the performance of a duty imposed by this Act.

(b) The judge may, at any time after the filing of a petition by or against a person, and before the expiration of one month after the qualification of the trustee, upon satisfactory proof by the affidavits of at least two persons that such bankrupt is about to leave the district in which he resides or has his principal place of business to avoid examination, and that his departure will defeat the proceedings in bankruptcy, issue a warrant to the marshal, directing him to bring such bankrupt forthwith before the court for examination. If upon hearing the evidence of the parties it shall appear to the court or a judge thereof that the allegations are true and that it is necessary, he shall order such marshal to keep such bankrupt in custody not exceeding ten days, but not imprison him, until he shall be examined and released or give bail conditioned for his appearance for examination, from time to time, not exceeding in all ten days, as required by the court, and for his obedience to all lawful orders made in reference thereto.

Sec. 10. (a) Whenever a warrant for the apprehension of a bankrupt shall have been issued, and he shall have been found within the jurisdiction of a court other than the one issuing the warrant, he may be extradited in the same manner in which persons under indictment are extradited from one district within which a district court has jurisdiction to another.

Sec. 11. (a) A suit which is founded upon a claim from which a discharge would be a release, and which is pending against a person at the time of the filing of a petition against him, shall be stayed until after an adjudication or the dismissal of the petition; if such person is adjudged a bankrupt, such action may be further stayed until twelve months after the date of such adjudication, or, if within that time such person applies for a discharge, then until the question of such discharge is determined.

(b) The court may order the trustee to enter his appearance and defend any pending suit against the bankrupt.

(c) A trustee may, with the approval of the court, be permitted to prosecute as trustee any suit commenced by the bankrupt prior to the adjudication, with like force and effect as though it had been commenced by him.

(d) Suits shall not be brought by or against a trustee of a bankrupt estate subsequent to two years after the estate has been closed.

Sec. 12. (a) A bankrupt may offer, either before or after adjudication, terms of composition to his creditors after, but not before, he has been examined in open court or at a meeting of his creditors, and has filed in court the schedule of his property and the list of his creditors required to be filed by bankrupts. In compositions before adjudication the bankrupt shall file the required schedules, and thereupon the court shall call a meeting of creditors for the allowance of claims, examination of the bankrupt, and preservation or conduct of estates, at which meeting the judge or referee shall preside; and action upon the petition for adjudication shall be delayed until it shall be

determined whether such composition shall be confirmed.

(b) An application for the confirmation of a composition may be filed in the court of bankruptcy after, but not before, it has been accepted in writing by a majority in number of all creditors whose claims have been allowed, which number must represent a majority in amount of such claims, and the consideration to be paid by the bankrupt to his creditors, and the money necessary to pay all debts which have priority and the cost of the proceedings, have been deposited in such place as shall be designated by and subject to the order of the judge.

(c) A date and place, with reference to the convenience of the parties in interest, shall be fixed for the hearing upon each application for the confirmation of a composition, and such objections as may be made to its confirmation.

(d) The judge shall confirm a composition if satisfied that (1) it is for the best interests of the creditors; (2) the bankrupt has not been guilty of any of the acts or failed to perform any of the duties which would be a bar to his discharge; and (3) the offer and its acceptance are in good faith and have not been made or procured except as herein provided, or by any means, promises, or acts herein forbidden.

(e) Upon the confirmation of a composition, the consideration shall be distributed as the judge shall direct, and the case dismissed. Whenever a composition is not confirmed, the estate shall be administered in bankruptcy as herein provided.

Sec. 13. (a) The judge may, upon the application of parties in interest filed at any time within six months after a composition has been confirmed, set the same aside and reinstate the case, if it shall be made to appear upon a trial that fraud was practiced in the procuring of such composition, and that the knowledge thereof has come to the petitioners since the confirmation of such composition.

Sec. 14. (a) Any person may, after the expiration of one month and within the next twelve months subsequent to being adjudged a bankrupt, file an application for a discharge in the court of bankruptcy in which the proceedings are pending; if it shall be made to appear to the judge that the bankrupt was unavoidably prevented from filing it within such time, it may be filed within but not after the expiration of the next six months.

(b) The judge shall hear the application for a discharge, and such proofs and pleas as may be made in opposition thereto by the trustee or other parties in interest, at such time as will give the trustee or parties in interest a reasonable opportunity to be fully heard, and investigate the merits of the application and discharge the applicant unless he has (1) committed an offence punishable by imprisonment as herein provided; or (2) with intent to conceal his financial condition, destroyed, canceled, or failed to keep books of account or records from which such condition might be ascertained; or (3) obtained money or property on credit upon a materially false statement in writing, made by him to any person or his representative for the purpose of obtaining credit from such person; or (4) at any time subsequent to the first day of the four months immediately preceding the filing of the petition transferred, removed, destroyed, or concealed, or permitted to be removed, destroyed, or concealed, any of his property, with intent to hinder, delay, or defraud his creditors; or (5) in voluntary proceedings been granted a discharge in bankruptcy within six years; or (6) in the course of the proceedings in bankruptcy refused to obey any lawful order of, or to answer any material question approved by the court; *Provided*, That a trustee shall not interpose objections to a bankrupt's discharge until he shall be authorized so to do at a meeting of creditors called for that purpose.

(c) The confirmation of a composition shall discharge the bankrupt from his debts, other than those agreed to be paid by the terms of the composition and those not affected by a discharge.

Sec. 15. (a) The judge may, upon the application of parties in interest who have not been guilty of undue laches, filed at any time within one year



after a discharge shall have been granted, revoke it upon a trial if it shall be made to appear that it was obtained through the fraud of the bankrupt, and that the knowledge of the fraud has come to the petitioners since the granting of the discharge, and that the actual facts did not warrant the discharge.

Sec. 16. (a) The liability of a person who is a co-debtor with, or guarantor or in any manner a surety for, a bankrupt shall not be altered by the discharge of such bankrupt.

Sec. 17. (a) A discharge in bankruptcy shall release a bankrupt from all of his provable debts, except such as (1) are due as a tax levied by the United States, the State, county, district, or municipality in which he resides; (2) are liabilities for obtaining property by false pretenses or false representations, or for wilful and malicious injuries to the person or property of another, or for alimony due or to become due, or for maintenance or support of wife or child, or for seduction of an unmarried female, or for criminal conversation; (3) have not been duly scheduled in time for proof and allowance, with the name of the creditor if known to the bankrupt, unless such creditor had notice or actual knowledge of the proceedings in bankruptcy; or (4) were created by his fraud, embezzlement, misappropriation, or defalcation while acting as an officer or in any fiduciary capacity.

#### COURTS AND PROCEDURE

Process, pleadings, and adjudications.

Jury trials.

Oaths, affirmations.

Evidence.

Reference of cases after adjudication.

Jurisdiction of United States and State courts.

Jurisdiction of appellate courts.

Appeals and writs of error.

Arbitration of controversies.

Compromises.

Designation of newspapers.

Offenses.

Rules, forms, and order.

Computation of time.

Transfer of cases.

Sec. 18. (a) Upon the filing of a petition for involuntary bankruptcy, service thereof, with a writ of subpoena, shall be made upon the person therein named as defendant in the same manner that service of such process is had upon the commencement of a suit in equity in the courts of the United States, except that it shall be returnable within fifteen days, unless the judge shall for cause fix a longer time; but in case personal service cannot be made, then notice shall be given by publication in the same manner and for the same time as provided by law for notice by publication in suits to enforce a legal or equitable lien in courts of the United States, except that, unless the judge shall otherwise direct, the order shall be published not more than once a week for two consecutive weeks, and the return day shall be ten days after the last publication unless the judge shall for cause fix a longer time.

(b) The bankrupt, or any creditor, may appear and plead to the petition within five days after the return day, or within such further time as the court may allow.

(c) All pleadings setting up matters of fact shall be verified under oath.

(d) If the bankrupt, or any of his creditors, shall appear within the time limited, and controvert the facts alleged in the petition, the judge shall determine, as soon as may be, the issues presented by the pleadings, without the intervention of a jury, except in cases where a jury trial is given by this Act, and makes (make) the adjudication or dismiss the petition.

(e) If on the last day within which pleadings may be filed none are filed by the bankrupt or any of his creditors, the judge shall on the next day, if present, or as soon thereafter as practicable, make the adjudication or dismiss the petition.

(f) If the judge is absent from the district, or the division of the district in which the petition is pending, on the next day after the last day on which pleadings may be filed, and none have been

filed by the bankrupt or any of his creditors, the clerk shall forthwith refer the case to the referee.

(g) Upon the filing of a voluntary petition the judge shall hear the petition and make the adjudication or dismiss the petition. If the judge is absent from the district, or the division of the district in which the petition is filed at the time of the filing, the clerk shall forthwith refer the case to the referee.

Sec. 19. (a) A person against whom an involuntary petition has been filed shall be entitled to have a trial by jury, in respect to the question of his insolvency, except as herein otherwise provided, and any act of bankruptcy alleged in such petition to have been committed, upon filing a written application therefor at or before the time within which an answer may be filed. If such application is not filed within such time, a trial by jury shall be deemed to have been waived.

(b) If a jury is not in attendance upon the court, one may be specially summoned for the trial, or the case may be postponed.

(c) The right to submit matters in controversy, or an alleged offense under this Act, to a jury shall be determined and enjoyed, except as provided by this Act, according to the United States laws in force or such as may be enacted in relation to trials by jury.

Sec. 20. (a) Oaths required by this Act, except upon hearings in court, may be administered by (1) referees; (2) officers authorized to administer oaths in proceedings before the courts of the United States, or under the laws of the State where the same are to be taken; and (3) diplomatic or consular officers of the United States in any foreign country.

(b) Any person conscientiously opposed to taking an oath may, in lieu thereof, affirm. Any person who shall affirm falsely shall be punished as for the making of a false oath.

Sec. 21. (a) A court of bankruptcy may, upon application of any officer, bankrupt, or creditor, by order require any designated person, including the bankrupt and his wife, to appear in court or before a referee or the judge of any State court, to be examined concerning the acts, conduct, or property of a bankrupt whose estate is in process of administration under this Act: *Provided*, That the wife may be examined only touching business transacted by her or to which she is a party, and to determine the fact whether she has transacted or been a party to any business of the bankrupt.

(b) The right to take depositions in proceedings under this Act shall be determined and enjoyed according to the United States laws in force, or such as may be enacted relating to the taking of depositions, except as herein provided.

(c) Notice of the taking of depositions shall be filed with the referee in every case. When depositions are to be taken in opposition to the allowance of a claim notice shall also be served upon the claimant, and when in opposition to a discharge notice shall also be served upon the bankrupt.

(d) Certified copies of proceedings before a referee, or of papers, when issued by the clerk or referee, shall be admitted as evidence with like force and effect as certified copies of the records of district courts of the United States are or may be admitted as evidence.

(e) A certified copy of the order approving the bond of a trustee shall constitute conclusive evidence of the vesting in him of the title to the property of the bankrupt, and if recorded shall impart the same notice that a deed from the bankrupt to the trustee if recorded would have imparted had not bankruptcy proceedings intervened.

(f) A certified copy of an order confirming or setting aside a composition, or granting or setting aside a discharge, not revoked, shall be evidence of the jurisdiction of the court, the regularity of the proceedings, and of the fact that the order was made.

(g) A certified copy of an order confirming a composition shall constitute evidence of the revesting of the title of his property in the bankrupt, and if recorded shall impart the same notice that a



deed from the trustee to the bankrupt if recorded would impart.

Sec. 22. (a) After a person has been adjudged a bankrupt the judge may cause the trustee to proceed with the administration of the estate, or refer it (1) generally to the referee or specially with only limited authority to act in the premises or to consider and report upon specified issues; or (2) to any referee within the territorial jurisdiction of the court, if the convenience of parties in interest will be served thereby, or for cause, or if bankrupt does not do business, reside, or have his domicile in the district.

(b) The judge may, at any time, for the convenience of parties or for cause, transfer a case from one referee to another,

Sec. 23. The United States *district* courts shall have jurisdiction of all controversies at law and in equity, as distinguished from proceedings in bankruptcy, between trustees as such and adverse claimants concerning the property acquired or claimed by the trustees, in the same manner and to the same extent only as though bankruptcy proceedings had not been instituted and such controversies had been between the bankrupts and such adverse claimants.

(b) Suits by the trustee shall only be brought or prosecuted in the courts where the bankrupt, whose estate is being administered by such trustee, might have brought or prosecuted them if proceedings in bankruptcy had not been instituted, unless by consent of the proposed defendant, except suits for the recovery of property under section *sixty-two*, sub-division (b), section *sixty-nine*, sub-division (e), and section *seventy-two*, sub-division (e).

Sec. 24. (a) The Supreme Court of the United States, the circuit courts of appeals of the United States, and the supreme courts of the Territories, in vacation in chambers and during their respective terms, as now or as they may be hereafter held, are hereby invested with appellate jurisdiction of controversies arising in bankruptcy proceedings from the courts of bankruptcy from which they have appellate jurisdiction in other cases. The Supreme Court of the United States shall exercise a like jurisdiction from courts of bankruptcy not within any organized circuit of the United States and from the Supreme Court of the District of Columbia.

(b) The several circuit courts of appeal shall have jurisdiction in equity, either interlocutory or final, to superintend and revise in matter of law the proceedings of the several inferior courts of bankruptcy within their jurisdiction. Such power shall be exercised on due notice and petition by any party aggrieved.

Sec. 25. (a) Appeals, as in equity cases, may be taken in bankruptcy proceedings from the courts of bankruptcy to the circuit court of appeals of the United States, and to the supreme court of the Territories in the following cases, to-wit, (1) from a judgment adjudging or refusing to adjudge the defendant a bankrupt; (2) from a judgment allowing or rejecting a debt or claim of five hundred dollars or over. Such appeal shall be taken within ten days after the judgment appealed from has been rendered, and may be heard and determined by the appellate court in term or vacation as the case may be.

(b) From any final decision of a court of appeals allowing or rejecting a claim under this Act, an appeal may be had under such rules and within such time as may be prescribed by the Supreme Court of the United States, in the following cases, and no other: (1) Where the amount in controversy exceeds the sum of two thousand dollars, and the question involved is one which might have been taken on appeal or writ of error from the highest court of a State to the Supreme Court of the United States; or (2) where some Justice of the Supreme Court of the United States shall certify that in his opinion the determination of the question or questions involved in the allowance or rejection of such claim is essential to a uniform construction of this Act throughout the United States.

(c) Trustees shall not be required to give bond when they take appeals or sue out writs of error.

(d) Controversies may be certified to the Supreme Court of the United States from other courts of the United States, and the former court may exercise jurisdiction thereof and issue writs of certiorari pursuant to the provisions of the United States laws in force or such as may be enacted.

Sec. 26. (a) The trustee may, pursuant to the direction of the court, submit to arbitration any controversy arising in the settlement of the estate.

(b) Three arbitrators shall be chosen by mutual consent, or one by the trustee, one by the other party to the controversy, and the third by the two so chosen, or if they fail to agree in five days after their appointment the court shall appoint the third arbitrator.

(c) The written finding of the arbitrators, or a majority of them, as to the issues presented, may be filed in court, and shall have like force and effect as the verdict of a jury.

Sec. 27. (a) The trustee may, with the approval of the court, compromise any controversy arising in the administration of the estate upon such terms as he may deem for the best interests of the estate.

Sec. 28. (a) Courts of bankruptcy shall by order designate a newspaper published within their respective territorial districts and in the county in which the bankrupt resides or the major part of his property is situated, in which notices required to be published by this Act and orders which the court may direct to be published shall be inserted. Any court may in a particular case, for the convenience of parties in interest, designate some additional newspaper in which notices and orders in such case shall be published.

Sec. 29. (a) A person shall be punished, by imprisonment for a period not to exceed five years, upon conviction of the offense of having knowingly and fraudulently appropriated to his own use, embezzled, spent, or unlawfully transferred any property or secreted or destroyed any document belonging to a bankrupt estate which came into his charge as trustee.

(b) A person shall be punished, by imprisonment for a period not to exceed two years, upon conviction of the offense of having knowingly and fraudulently (1) concealed while a bankrupt, or after his discharge, from his trustee any of the property belonging to his estate in bankruptcy; or (2) made a false oath or account in, or in relation to, any proceeding in bankruptcy; (3) presented under oath any false claim for proof against the estate of a bankrupt, or used any such claim in composition personally or by agent, proxy, or attorney, or as agent, proxy, or attorney; or (4) received any material amount of property from a bankrupt after the filing of the petition, with intent to defeat this Act; or (5) extorted or attempted to extort any money or property from any person as a consideration for acting or forbearing to act in bankruptcy proceedings.

(c) A person shall be punished by fine, not to exceed five hundred dollars, and forfeit his office, and the same shall thereupon become vacant upon conviction of the offense of having knowingly (1) acted as a referee in a case in which he is directly or indirectly interested; or (2) purchased, while a referee, directly or indirectly, any property of the estate in bankruptcy of which he is referee; or (3) refused, while a referee or trustee, to permit a reasonable opportunity for the inspection of the accounts relating to the affairs of, and the papers and records of, estates in his charge by parties in interest when directed by the court so to do.

(d) A person shall not be prosecuted for any offense arising under this Act unless the indictment is found or the information is filed in court within one year after the commission of the offense.

Sec. 30. (a) All necessary rules, forms, and orders as to procedure for carrying this Act into force and effect shall be prescribed, and may be amended from time to time, by the Supreme Court of the United States.

Sec. 31. (a) Whenever time is enumerated by

days in this Act, or in any proceeding in bankruptcy, the number of days shall be computed by excluding the first and including the last, unless the last fall on a Sunday or holiday, in which event the day last included shall be the next day thereafter which is not a Sunday or a legal holiday.

Sec. 32. (a) In the event petitions are filed against the same person, or against different members of a partnership, in different courts of bankruptcy each of which has jurisdiction, the cases shall be transferred, by order of the courts relinquishing jurisdiction, to and be consolidated by the one of such courts which can proceed with the same for the greatest convenience of parties in interest.

#### OFFICERS, THEIR DUTIES AND COMPENSATION.

Creation of two offices.

Appointment, removal, and districts of referees.

Qualification of referees.

Oath of office of referees.

Number of referees.

Jurisdiction of referees.

Duties of referees.

Compensation of referees.

Contempts before referees.

Records of referees.

Referee's absence or disability.

Appointment of trustees.

Qualifications of trustees.

Death or removal of trustees.

Duties of trustees.

Compensation of trustees.

Compensation restricted.

Accounts and papers of trustees.

Bonds of referees and trustees.

Duties of clerks.

Compensation of clerks and marshals.

Clerks of district courts to keep bankruptcy records, etc.

Duties of Attorney-General.

Statistics of bankruptcy proceedings.

Sec. 33. (a) The offices of referee and trustee are hereby created.

Sec. 34. (a) Courts of bankruptcy shall, within the territorial limits of which they respectively have jurisdiction, (1) appoint referees, each for a term of two years, and may, in their discretion, remove them because their services are not needed or for other causes; and (2) designate, and from time to time change, the limits of the districts of referees, so that each county, where the services of a referee are needed, may constitute at least one district.

Sec. 35. (a) Individuals shall not be eligible to appointment as referees unless they are respectively; (1) competent to perform the duties of that office; (2) not holding any office of profit or emolument under the laws of the United States or of any State other than commissioners of deeds, justices of the peace, masters in chancery, or notaries public; (3) not related by consanguinity or affinity, within the third degree as determined by the common law, to any of the judges of the courts of bankruptcy, or of the justices or judges of the appellate courts of the districts wherein they may be appointed; and (4) residents of, or have their offices in, the territorial districts for which they are to be appointed.

Sec. 36. (a) Referees shall take the same oath of office as that prescribed for judges of United States courts.

Sec. 37. (a) Such number of referees shall be appointed as may be necessary to assist in expeditiously transacting the bankruptcy business pending in the various courts of bankruptcy.

Sec. 38. (a) Referees respectively are hereby invested, subject always to a review by the judge, within the limits of their districts as established from time to time, with jurisdiction to (1) consider all petitions referred to them by the clerks and make the adjudications or dismiss the petitions; (2) exercise the power vested in courts of bankruptcy for the administering of oaths to and the examination of persons as witnesses and for requiring the production of documents in proceedings before them, except the power of commitment;

(3) exercise the powers of the judge for the taking possession and releasing of the property of the bankrupt in the event of the issuance by the clerk of a certificate showing the absence of a judge from the judicial district or the division of the district, or his sickness or inability to act; (4) perform such part of the duties, except as to questions arising out of the applications of bankrupts for compositions or discharges, as are by this Act conferred on courts of bankruptcy and as shall be prescribed by rules or orders of the courts of bankruptcy of their respective districts, except as herein otherwise provided; and (5) upon the application of the trustee during the examination of the bankrupts, or other proceedings, authorize the employment of stenographers at the expense of the estates at a compensation not to exceed ten cents per folio for reporting and transcribing the proceedings.

Sec. 39. (a) Referees shall (1) declare dividends and prepare and deliver to trustees dividend sheets showing the dividends declared and to whom payable; (2) examine all schedules of property and lists of creditors filed by bankrupts and cause such as are incomplete or defective to be amended; (3) furnish such information concerning the estates in process of administration before them as may be requested by the parties in interest; (4) give notices to creditors as herein provided; (5) make up records embodying the evidence, or the substance thereof, as agreed upon by the parties in all contested matters arising before them, whenever requested to do so by either of the parties thereto, together with their findings therein, and transmit them to the judges; (6) prepare and file the schedules of property and lists of creditors required to be filed by the bankrupts, or cause the same to be done, when the bankrupts fail, refuse, or neglect to do so; (7) safely keep perfect, and transmit to the clerk the records, herein required to be kept by them, when the cases are concluded; (8) transmit to the clerks such papers as may be on file before them whenever the same are needed in any proceedings in courts, and in like manner secure the return of such papers after they have been used, or, if it be impracticable to transmit the original papers, transmit certified copies thereof by mail; (9) upon application of any party in interest, preserve the evidence taken or the substance thereof as agreed upon by the parties before them when a stenographer is not in attendance; (10) whenever their respective offices are in the same cities or towns where the courts of bankruptcy convene, call upon and receive from the clerks all papers filed in courts of bankruptcy which have been referred to them.

(b) Referees shall not (1) act in cases in which they are directly or indirectly interested; (2) practice as attorneys and counselors at law in any bankruptcy proceedings; or (3) purchase, directly or indirectly, any property of an estate in bankruptcy.

Sec. 40. (a) Referees shall receive as full compensation for their services, payable after they are rendered, a fee of fifteen dollars deposited with the clerk at the time the petition is filed in each case, except when a fee is not required from a voluntary bankrupt, and twenty-five cents for every proof of claim filed for allowance, to be paid from the estate, if any, as a part of the cost of administration, and from estates which have been administered before them one per centum commissions on all moneys disbursed to creditors by the trustee, or one-half of one per centum on the amount to be paid to creditors upon the confirmation of a composition.

(b) Whenever a case is transferred from one referee to another the judge shall determine the proportion in which the fee and commissions therefor shall be divided between the referees.

(c) In the event of the reference of a case being revoked before it is concluded, and when the case is specially referred, the judge shall determine what part of the fee and commissions shall be paid to the referee.

Sec. 41. (a) A person shall not, in proceedings before a referee, (1) disobey or resist any lawful order, process, or writ; (2) misbehave during a hearing or so near the place thereof as to obstruct



the same; (3) neglect to produce, after having been ordered to do so, any pertinent document; or (4) refuse to appear after having been subpoenaed, or, upon appearing, refuse to take the oath as a witness, or, after having taken the oath, refuse to be examined according to law: *Provided*, That no person shall be required to attend as a witness before a referee at a place outside of the State of his residence, and more than one hundred miles from such place of residence, and only in case his lawful mileage and fee for one day's attendance, shall be first paid or tendered to him.

(b) The referee shall certify the facts to the judge, if any person shall do any of the things forbidden in this section. The judge shall thereupon, in a summary manner, hear the evidence as to the acts complained of, and, if it is such as to warrant him in so doing, punish such person in the same manner and to the same extent as for a contempt committed before the court of bankruptcy, or commit such person upon the same conditions as if the doing of the forbidden act had occurred with reference to the process of, or in the presence of, the court.

Sec. 42. (a) The records of all proceedings in each case before a referee shall be kept as nearly as may be in the same manner as records are kept in equity cases in district courts of the United States.

(b) A record of the proceedings in each case shall be kept in a separate book or books, and shall, together with the papers on file, constitute the records of the case.

(c) The book or books containing a record of the proceedings shall, when the case is concluded before the referee, be certified to by him, and, together with such papers as are on file before him, be transmitted to the court of bankruptcy and shall there remain as a part of the records of the court.

Sec. 43. (a) Whenever the office of a referee is vacant, or its occupant is absent or disqualified to act, the judge may act, or may appoint another referee, or another referee holding an appointment under the same court may, by order of the judge, temporarily fill the vacancy.

Sec. 44. (a) The creditors of a bankrupt estate shall, at their first meeting after the adjudication or after a vacancy has occurred in the office of trustee, or after an estate has been reopened, or after a composition has been set aside or a discharge revoked, or if there is a vacancy in the office of trustee, appoint one trustee or three trustees of such estate. If the creditors do not appoint a trustee or trustees as herein provided, the court shall do so.

Sec. 45. (a) Trustees may be (1) individuals who are respectively competent to perform the duties of that office, and reside or have an office in the judicial district within which they are appointed, or (2) corporations authorized by their charters or by law to act in such capacity and having an office in the judicial district within which they are appointed.

Sec. 46. (a) The death or removal of a trustee shall not abate any suit or proceeding which he is prosecuting or defending at the time of his death or removal, but the same may be proceeded with or defended by his joint trustee or successor in the same manner as though the same had been commenced or was being defended by such joint trustee alone or by such successor.

Sec. 47. (a) Trustees shall respectively (1) account for and pay over to the estates under their control all interest received by them on property of such estates; (2) collect and reduce to money the property of the estates for which they are trustees, under the direction of the court, and close up the estate as expeditiously as is compatible with the best interests of the parties in interest; and such trustees, as to all property in the custody or coming into the custody of the bankruptcy court, shall be deemed vested with all the rights, remedies, and powers of a creditor holding a lien by legal or equitable proceedings thereon; and also, as to all property not in the custody of the bankruptcy court, shall be deemed vested with all the rights, remedies, and powers of a judgment creditor holding an execution duly returned unsatisfied; (3)

deposit all money received by them in one of the designated depositories; (4) disburse money only by check or draft on the depositories in which it has been deposited; (5) furnish such information concerning the estates of which they are trustees and their administration as may be requested by parties in interest; (6) keep regular accounts showing all amounts received and from what sources and all amounts expended and on what accounts; (7) lay before the final meeting of the creditors detailed statements of the administration of the estates; (8) make final reports and file final accounts with the courts fifteen days before the days fixed for the final meetings of the creditors; (9) pay dividends within ten days after they are declared by the referees; (10) report to the courts, in writing, the condition of the estates and the amounts of money on hand, and such other details as may be required by the courts, within the first month after their appointment and every two months thereafter, unless otherwise ordered by the courts; and (11) set apart the bankrupt's exemptions and report the items and estimated value thereof to the court as soon as practicable after their appointment.

(b) Whenever three trustees have been appointed for an estate, the concurrence of at least two of them shall be necessary to the validity of their every act concerning the administration of the estate.

(c) The trustee shall, within thirty days after the adjudication, file a certified copy of the decree of adjudication in the office where conveyances of real estate are recorded in every county where the bankrupt owns real estate not exempt from execution, and pay the fee for such filing, and he shall receive a compensation of fifty cents for each copy so filed, which, together with the filing fee, shall be paid out of the estate of the bankrupt as a part of the cost and disbursements of the proceedings.

Sec. 48. (a) Trustees shall receive for their services, payable after they are rendered, a fee of five dollars deposited with the clerk at the time the petition is filed in each case, except when a fee is not required from a voluntary bankrupt, and such commissions on all moneys disbursed or turned over to any person, including lien holders, by them, as may be allowed by the court, not to exceed six per centum on the first five hundred dollars or less, four per centum on moneys in excess of five hundred dollars and not less than fifteen hundred dollars, two per centum on moneys in excess of fifteen hundred dollars and less than ten thousand dollars, and one per centum on moneys in excess of ten thousand dollars. And in case of the confirmation of a composition after the trustee has qualified the court may allow him, as compensation, not to exceed one-half of one per centum of the amount to be paid the creditors on such composition.

(b) In the event of an estate being administered by three trustees instead of one trustee or by successive trustees, the court shall apportion the fees and commissions between them according to the services actually rendered, so that there shall not be paid to trustees for the administering of any estate a greater amount than one trustee would be entitled to.

(c) The court may, in its discretion, withhold all compensation from any trustee who has been removed for cause.

(d) Receivers or marshals appointed pursuant to section two, sub-division three, shall receive for their services, payable after they are rendered, compensation by way of commissions upon the moneys disbursed or turned over to any person, including lien holders, by them, and also upon the moneys turned over by them or afterwards realized by the trustees from property turned over in kind by them to the trustees, as the court may allow, not to exceed six per centum on the first five hundred dollars or less, four per centum on moneys in excess of five hundred dollars and less than one thousand five hundred dollars, two per centum on moneys in excess of one thousand five hundred dollars and less than ten thousand dollars, and one per centum on moneys in excess of ten thousand dollars: *Provided*, That in case of the confirmation



of a composition such commissions shall not exceed one-half of one per centum of the amount to be paid creditors on such compositions: *Provided further*, That when the receiver or marshal acts as a mere custodian and does not carry on the business of the bankrupt as provided in clause five of section two, he shall not receive nor be allowed in any form or guise more than two per centum on the first thousand dollars or less, and one-half of one per centum on all above one thousand dollars on moneys disbursed by him or turned over by him to the trustee and or moneys subsequently realized from property turned over by him in kind to the trustee: *Provided further*, That before the allowance of compensation notice of application therefor, specifying the amount asked, shall be given to creditors in the manner indicated in section sixty.

(e) Where the business is conducted by trustees, marshals, or receivers, as provided in clause five section two, the court may allow such officers additional compensation for such services by way of commissions upon the moneys disbursed or turned over to any person, including lien holders, by them, and, in cases of receivers or marshals, also upon the moneys turned over by them or afterwards realized by the trustees from property turned over in kind by them to the trustees; such commissions not to exceed six per centum on the first five hundred dollars or less, four per centum on moneys in excess of five hundred dollars and less than one thousand five hundred dollars, two per centum on moneys in excess of one thousand five hundred dollars and less than ten thousand dollars, and one per centum on moneys in excess of ten thousand dollars: *Provided*, That in case of the confirmation of a composition such commissions shall not exceed one-half of one per centum of the amount to be paid creditors on such composition: *Provided further*, That before the allowance of compensation notice of application therefor, specifying the amount asked, shall be given to creditors in the manner indicated in section sixty.

Sec. 49. Neither the referee, receiver, marshal, or trustee shall in any form or guise receive, nor shall the court allow him, any other or further compensation for his services than that expressly authorized and prescribed in this act.

Sec. 50. (a) The accounts and papers of trustees shall be open to the inspection of officers and all parties in interest.

Sec. 51. (a) Referees, before assuming the duties of their offices, and within such time as the district courts of the United States having jurisdiction shall prescribe, shall respectively qualify by entering into bond to the United States in such sum as shall be fixed by such courts, not to exceed five thousand dollars, with such sureties as shall be approved by such courts, conditioned for the faithful performance of their official duties.

(b) Trustees, before entering upon the performance of their official duties, and within ten days after their appointment, or within such further time, not to exceed five days, as the court may permit, shall respectively qualify by entering into bond to the United States, with such sureties as shall be approved by the courts, conditioned for the faithful performance of their official duties.

(c) The creditors of a bankrupt estate, at their first meeting after the adjudication, or after a vacancy has occurred in the office of trustee, or after an estate has been reopened, or after a composition has been set aside or a discharge revoked, if there is a vacancy in the office of trustee, shall fix the amount of the bond of the trustee; they may at any time increase the amount of the bond. If the creditors do not fix the amount of the bond of the trustee as herein provided the court shall do so.

(d) The court shall require evidence as to the actual value of the property of sureties.

(e) There shall be at least two sureties upon each bond.

(f) The actual value of the property of the sureties, over and above their liabilities and exemptions, on each bond shall equal at least the amount of such bond.

(g) Corporations organized for the purpose of becoming sureties upon bonds, or authorized by law to do so, may be accepted as sureties upon

the bonds of referees and trustees whenever the courts are satisfied that the rights of all parties in interest will be thereby amply protected.

(h) Bonds of referees, trustees, and designated depositories shall be filed of record in the office of the clerk of the court and may be sued upon in the name of the United States for the use of any person injured by a breach of their conditions.

(i) Trustees shall not be liable, personally or on their bonds, to the United States, for any penalties or forfeitures incurred by the bankrupts under this Act, of whose estates they are respectively trustees.

(j) Joint trustees may give joint or several bonds.

(k) If any referee or trustee shall fail to give bond, as herein provided and within the time limited, he shall be deemed to have declined his appointment, and such failure shall create a vacancy in his office.

(l) Suits upon referees' bonds shall not be brought subsequent to two years after the alleged breach of the bond.

(m) Suits upon trustees' bonds shall not be brought subsequent to two years after the estate has been closed.

Sec. 52. (a) Clerks shall respectively (1) account for, as for other fees received by them, the clerk's fee paid in each case and such other fees as may be received for certified copies of records which may be prepared for persons other than officers; (2) collect the fees of the clerk, referee, and trustee in each case instituted before filing the petition, except the petition of a proposed voluntary bankrupt which is accompanied by an affidavit stating that the petitioner is without, and cannot obtain, the money with which to pay such fees; (3) deliver to the referees upon application all papers which may be referred to them, or if the offices of such referees are not in the same cities or towns as the offices of such clerks, transmit such papers by mail, and in like manner return papers which were received from such referees after they had been used; (4) and within ten days after each case has been closed pay to the referee, if the case was referred, the fee collected for him, and to the trustee the fee collected for him at the time of filing the petition.

Sec. 53. (a) Clerks shall respectively receive as full compensation for their services to each estate, a filing fee of ten dollars, except when a fee is not required from a voluntary bankrupt.

(b) Marshals shall receive from the estate where an adjudication in bankruptcy is made, except as herein otherwise provided, for the performance of their services in proceedings in bankruptcy, the same fees, and account for them in the same way, as they are entitled to receive for the performance of the same or similar services in other cases in accordance with laws in force, or such as may be enacted, fixing the compensation of marshals.

Sec. 54. The clerks of the several district courts of the United States shall prepare and keep in their respective offices complete and convenient indexes of all petitions and discharges in bankruptcy filed in the said courts, and shall, when requested so to do, issue certificates of search certifying as to whether or not any such petitions or discharges have been filed; and said clerks shall be entitled to receive for such certificates the same fees as allowed by law for certificates as to judgments in said courts: *Provided*, That said bankruptcy indexes and dockets shall at all times be open to inspection and examination by all persons or corporations without any fee or charge therefor.

Sec. 55. (a) The Attorney-General shall annually lay before Congress statistical tables showing for the whole country, and by States, the number of cases during the year of voluntary and involuntary bankruptcy; the amount of the property of the estates; the dividends paid and the expenses of administering such estates; and such other like information as he may deem important.

Sec. 56. (a) Officers shall furnish in writing and transmit by mail such information as is within their knowledge, and as may be shown by the records and papers in their possession, to the Attorney General, for statistical purposes, within ten days after being requested by him to do so.

## CREDITORS.

Meetings of creditors.  
 Voters at meetings of creditors.  
 Proof and allowance of claims.  
 Notice to creditors.  
 Who may file and dismiss petitions.  
 Preferred creditors.

Sec. 57. (a) The court shall cause the first meeting of the creditors of a bankrupt, to be held, not less than ten nor more than thirty days after the adjudication, at the county seat of the county in which the bankrupt has had his principal place of business, resided, or had his domicile; or if that place would be manifestly inconvenient as a place of meeting for the parties in interest, or if the bankrupt is one who does not do business, reside, or have his domicile within the United States, the court shall fix a place for the meeting which is the most convenient for parties in interest. If such meeting should by any mischance not be held within such time, the court shall fix the date, as soon as may be thereafter, when it shall be held.

(b) At the first meeting of creditors the judge or referee shall preside, and, before proceeding with the other business, may allow or disallow the claims of creditors there presented, and may publicly examine the bankrupt or cause him to be examined at the instance of any creditor.

(c) The creditors shall at each meeting take such steps as may be pertinent and necessary for the promotion of the best interests of the estate and the enforcement of this Act.

(d) A meeting of creditors subsequent to the first one, may be held at any time and place when all of the creditors who have secured the allowance of their claims sign a written consent to hold a meeting at such time and place.

(e) The court shall call a meeting of creditors whenever one-fourth or more in number of those who have proven their claims shall file a written request to that effect; if such request is signed by a majority of such creditors, which number represents a majority in amount of such claims, and contains a request for such meeting to be held at a designated place, the court shall call such meeting at such place within thirty days after the date of the filing of the request.

(f) Whenever the affairs of the estate are ready to be closed a final meeting of creditors shall be ordered.

Sec. 58. (a) Creditors shall pass upon matters submitted to them at their meetings by a majority vote in number and amount of claims of all creditors whose claims have been allowed and are present, except as herein otherwise provided.

(b) Creditors holding claims which are secured or have priority shall not, in respect to such claims, be entitled to vote at creditors' meetings, nor shall such claims be counted in computing either the number of creditors or the amount of their claims, unless the amounts of such claims exceed the values of such securities or priorities, and then only for such excess.

Sec. 59. (a) Proof of claims shall consist of a statement under oath, in writing, signed by a creditor setting forth the claim, the consideration therefor, and whether any, and, if so what, securities are held therefor, and whether any, and if so what, payments have been made thereon, and that the sum claimed is justly owing from the bankrupt to the creditor.

(b) Whenever a claim is founded upon an instrument of writing, such instrument, unless lost or destroyed, shall be filed with the proof of claim. If such instrument is lost or destroyed, a statement of such fact and of the circumstances of such loss or destruction shall be filed under oath with the claim. After the claim is allowed or disallowed, such instrument may be withdrawn by permission of the court, upon leaving a copy thereof on file with the claim.

(c) Claims after being proved may, for the purpose of allowance, be filed by the claimants in the court where the proceedings are pending or before the referee if the case has been referred.

(d) Claims which have been duly proved shall be allowed, upon receipt by or upon presentation to the court, unless objection to their allowance

shall be made by parties in interest, or their consideration be continued for cause by the court upon its own motion.

(e) Claims of secured creditors and upon those who have priority may be allowed to enable such creditors to participate in the proceedings at creditors' meetings held prior to the determination of the value of their securities for such sums only as to the courts seem to be owing over and above the value of their securities or priorities.

(f) Objections to claims shall be heard and determined as soon as the convenience of the court and the best interests of the estates and the claimants will permit.

(g) The claims of creditors who have received preferences, voidable under section sixty-two, subdivision (b), or to whom conveyances, transfers, assignments, or incumbrances, void or voidable under section sixty-nine, sub-division (e), have been made or given, shall not be allowed unless such creditors shall surrender such preferences, conveyances, transfers, assignments, or incumbrances.

(h) The value of securities held by secured creditors shall be determined by converting the same into money according to the terms of the agreement pursuant to which such securities were delivered to such creditors or by such creditors and the trustee, by agreement, arbitration, compromise, or litigation, as the court may direct, and the amount of such value shall be credited upon such claims, and a dividend shall be paid only on the unpaid balance.

(i) Whenever a creditor, whose claim against a bankrupt estate is secured by the individual undertaking of any person, fails to prove such claim, such person may do so in the creditor's name, and if he discharge such undertaking in whole or in part he shall be subrogated to that extent to the rights of the creditor.

(j) Debts owing to the United States, a State, a county, a district, or a municipality as a penalty or forfeiture shall not be allowed, except for the amount of the pecuniary loss sustained by the act, transaction, or proceeding out of which the penalty or forfeiture arose, with reasonable and actual costs occasioned thereby and such interest as may have accrued thereon according to law.

(k) Claims which have been allowed may be reconsidered for cause and reallocated or rejected in whole or in part, according to the equities of the case, before but not after the estate has been closed.

(l) Whenever a claim shall have been reconsidered and rejected, in whole or in part, upon which a dividend has been paid, the trustee may recover from the creditor the amount of the dividend received upon the claim if rejected in whole, or the proportional part thereof if rejected only in part.

(m) The claim of any estate which is being administered in bankruptcy against any like estate may be proved by the trustee and allowed by the court in the same manner and upon like terms as the claims of other creditors.

(n) Claims shall not be proved against a bankrupt estate subsequent to one year after the adjudication; or if they are liquidated by litigation and the final judgment therein is rendered within thirty days before or after the expiration of such time, then within sixty days after the rendition of such judgment: *Provided*, That the right of infants and insane persons without guardians, without notice of the proceedings, may continue six months longer.

Sec. 60 (a) Creditors shall have at least ten days' notice by mail, to their respective addresses as they appear in the list of creditors of the bankrupt, or as afterwards filed with the papers in the case by the creditors, unless they waive notice in writing, of (1) all examinations of the bankrupt; (2) all hearings upon applications for the confirmation of compositions; (3) all meetings of creditors; (4) all proposed sales of property; (5) the declaration and time of payment of dividends; (6) the filing of the final accounts of the trustee, and the time when and the place where they will be examined and passed upon; (7) the proposed compromise of any controversy; (8) the proposed dismissal



of the proceedings; and (9) there shall be thirty days' notice of all applications for the discharge of bankrupts.

(b) Notice to the creditors of the first meeting shall be published at least once and may be published such number of additional times as the court may direct; the last publication shall be at least one week prior to the date fixed for the meeting. Other notices may be published as the court may direct.

(c) All notices shall be given by the referee, unless otherwise ordered by the judge.

Sec. 61. (a) Any qualified person may file a petition to be adjudged a voluntary bankrupt.

(b) Three or more creditors who have provable claims against any person which amount in the aggregate, in excess of the value of securities held by them, if any, to five hundred dollars or over; or if all of the creditors of such person are less than twelve in number, then one of such creditors whose claim equals such amount may file a petition to have him adjudged a bankrupt.

(c) Petitions shall be filed in duplicate, one copy for the clerk and one for service on the bankrupt.

(d) If it be averred in the petition that the creditors of the bankrupt are less than twelve in number, and less than three creditors have joined as petitioners therein, and the answer avers the existence of a larger number of creditors, there shall be filed with the answer a list under oath of all the creditors, with their addresses, and thereupon the court shall cause all such creditors to be notified of the pendency of such petition and shall delay the hearing upon such petition for a reasonable time, to the end that parties in interest shall have an opportunity to be heard; if upon such hearing it shall appear that a sufficient number have joined in such petition, or if prior to or during such hearing a sufficient number shall join therein, the case may be proceeded with, but otherwise it shall be dismissed.

(e) In computing the number of creditors of a bankrupt for the purpose of determining how many creditors must join in the petition, such creditors as were employed by him at the time of the filing of the petition or are related to him by consanguinity or affinity within the third degree, as determined by the common law, and have not joined in the petition, shall not be counted.

(f) Creditors other than original petitioners may at any time enter their appearance and join in the petition, or file an answer and be heard in opposition to the prayer of the petition.

(g) A voluntary or involuntary petition shall not be dismissed by the petitioner or petitioners or for want of prosecution or by consent of parties until after notice to the creditors; and to that end the court shall, before entertaining an application for dismissal, require the bankrupt to file a list, under oath, of all his creditors, and shall cause notice to be sent to all such creditors of the pendency of such application, and shall delay the hearing thereon for a reasonable time to allow all creditors and parties in interest opportunity to be heard.

Sec. 62. (a) A person shall be deemed to have given a preference if, being insolvent, he has, within four months before the filing of the petition, or after the filing of the petition and before the adjudication, procured or suffered a judgment to be entered against himself in favor of any person, or made a transfer of any of his property, and the effect of the enforcement of such judgment or transfer will be to enable any one of his creditors to obtain a greater percentage of his debt than any other of such creditors of the same class. Where the preference consists in a transfer, such period of four months shall not expire until four months after the date of the recording or registering of the transfer, if by law such recording or registering is required.

(b) If a bankrupt shall have procured or suffered a judgment to be entered against him in favor of any person or have made a transfer of any of his property, and if, at the time of the transfer, or of the entry of the judgment, or of the recording or registering of the transfer if by law recording or registering thereof is required, and being within four months before the filing of

the petition in bankruptcy or after the filing thereof and before the adjudication, the bankrupt be insolvent and the judgment or transfer then operate as a preference, and the person receiving it or to be benefited thereby, or his agent acting therein, shall then have reasonable cause to believe that the enforcement of such judgment or transfer would effect a preference, it shall be voidable by the trustee and he may recover the property or its value from such person. And, for the purpose of such recovery, any court of bankruptcy, as hereinbefore defined, and any State court which would have had jurisdiction if bankruptcy had not intervened, shall have concurrent jurisdiction.

(c) If a creditor has been preferred, and afterwards in good faith gives the debtor further credit without security of any kind for property which becomes a part of the debtor's estates, the amount of such new credit remaining unpaid at the time of the adjudication in bankruptcy may be set off against the amount which would otherwise be recoverable from him.

(d) If a debtor shall, directly or indirectly, in contemplation of the filing of a petition by or against him, pay money or transfer property to an attorney and counselor at law, solicitor in equity, or proctor in admiralty for services to be rendered, the transaction shall be reexamined by the court on petition of the trustee or any creditor and shall only be held valid to the extent of a reasonable amount to be determined by the court, and the excess may be recovered by the trustee for the benefit of the estate.

#### ESTATES.

Depositories for money.

Expenses of administering estates.

Debts which may be proved.

Debts which have priority.

Declaration and payment of dividends.

Unclaimed dividends.

Liens.

Set-offs and counterclaims.

Possession of property.

Title to property.

Cases prior to June 25, 1910.

Sec. 63. (a) Courts of bankruptcy shall designate by order, banking institutions as depositories for the money of bankrupt estates, as convenient as may be to the residences of trustees, and shall require bonds to the United States, subject to their approval, to be given by such banking institutions, and may from time to time as occasion may require, by like order increase the number of depositories or the amount of any bond or change such depositories.

Sec. 64. (a) The actual and necessary expenses incurred by officers in the administration of estates shall, except where other provisions are made for their payment, be reported in detail, under oath, and examined and approved or disapproved, by the court. If approved, they shall be paid or allowed out of the estates in which they were incurred.

Sec. 65. (a) Debts of the bankrupt may be proved and allowed against his estate which are (1) a fixed liability, as evidenced by a judgment or an instrument in writing, absolutely owing at the time of the filing of the petition against him, whether then payable or not, with any interest thereon which would have been recoverable at that date or with a rebate of interest upon such as were not then payable and did not bear interest; (2) due as costs taxable against an involuntary bankrupt who was at the time of the filing of the petition against him plaintiff in a cause of action which would pass to the trustee and which the trustee declines to prosecute after notice; (3) founded upon a claim for taxable costs incurred in good faith by a creditor before the filing of a petition an action to recover a provable debt; (4) founded upon an open account, or upon a contract, expressed or implied; and (5) founded upon provable debts reduced to judgments after the filing of the petition and before the consideration of the bankrupt's application for a discharge, less costs incurred and interest accrued after the filing of the petition and up to the time of the entry of such judgments.



(b) Unliquidated claims against the bankrupt may, pursuant to application to the court, be liquidated in such manner as it shall direct, and may thereafter be proved and allowed against the estate.

Sec. 66. (a) The court shall order the trustee to pay all taxes legally due and owing by the bankrupt to the United States, State, county, district, or municipality in advance of the payment of dividends to creditors, and upon filing the receipts of the proper public officers for such payment he shall be credited with the amount thereof, and in case any question arises as to the amount or legality of any such tax the same shall be heard and determined by the court.

(b) The debts to have priority, except as herein provided, and to be paid in full out of the bankrupt estates, and the order of payment shall be (1) the actual and necessary cost of preserving the estate subsequent to filing the petition; (2) the filing fees paid by creditors in involuntary cases, and, where property of the bankrupt, transferred or concealed by him either before or after the filing of the petition, shall have been recovered for the benefit of the estate of the bankrupt, by the efforts and at the expense of one or more creditors, the reasonable expenses of such recovery; (3) the cost of administration, including the fees and mileage payable to witnesses as provided or to be provided by the laws of the United States, and one reasonable attorney's fee, for the professional services actually rendered, irrespective of the number of attorneys employed, to the petitioning creditors in involuntary cases, to the bankrupt in involuntary cases while performing the duties herein prescribed, and to the bankrupt in voluntary cases, as the court may allow; (4) wages due to workmen, clerks, traveling or city salesmen, or servants which have been earned within three months before the date of the commencement of proceedings, not to exceed three hundred dollars to each claimant; and (5) debts owing to any person who by the laws of the States or the United States is entitled to priority.

(c) In the event of the confirmation of a composition being set aside, or a discharge revoked, the property acquired by the bankrupt in addition to his estate at the time the composition was confirmed or the adjudication was made shall be applied to the payment in full of the claims of creditors for property sold to him on credit, in good faith, while such composition or discharge was in force, and the residue, if any, shall be applied to the payment of the debts which were owing at the time of the adjudication.

Sec. 67. (a) Dividends of an equal per centum shall be declared and paid on all allowed claims, except such as have priority or are secured.

(b) The first dividend shall be declared within thirty days after the adjudication, if the money of the estate in excess of the amount necessary to pay the debts which have priority and such claims as have not been, but probably will be, allowed equals five per centum or more of such allowed claims. Dividends subsequent to the first shall be declared upon like terms as the first and as often as the amount shall equal ten per centum or more and upon closing the estate. Dividends may be declared oftener and in smaller proportions if the judge shall so order: *Provided*, That the first dividend shall not include more than fifty per centum of the money of the estate in excess of the amount necessary to pay the debts which have priority and such claims as probably will be allowed: *And provided further*, That the final dividend shall not be declared within three months after the first dividend shall be declared.

(c) The rights of creditors who have received dividends, or in whose favor final dividends have been declared, shall not be affected by the proof and allowance of claims subsequent to the date of such payment or declarations of dividends; but the creditors proving and securing the allowance of such claims shall be paid dividends equal in amount to those already received by the other creditors if the estate equals so much before such other creditors are paid any further dividends.

(d) Whenever a person shall have been adjudged a bankrupt by a court without the United States and also by a court of bankruptcy, credi-

tors residing within the United States shall first be paid a dividend equal to that received in the court without the United States by other creditors before creditors who have received a dividend in such court shall be paid any amounts.

(e) A claimant shall not be entitled to collect from a bankrupt estate any greater amount than shall accrue pursuant to the provisions of this Act.

Sec. 68. (a) Dividends which remain unclaimed for six months after the final dividend has been declared shall be paid by the trustee into court.

(b) Dividends remaining unclaimed for one year shall, under the direction of the court, be distributed to the creditors whose claims have been allowed but not paid in full, and after such claims have been paid in full the balance shall be paid to the bankrupt: *Provided*, That in case unclaimed dividends belong to minors such minors may have one year after arriving at majority to claim such dividends.

Sec. 69. (a) Claims which for want of record or for other reasons would not have been valid liens as against the claims of the creditors of the bankrupt shall not be liens against his estate.

(b) Whenever a creditor is prevented from enforcing his rights as against a lien created, or attempted to be created, by his debtor, who afterwards becomes a bankrupt, the trustee of the estate of such bankrupt shall be subrogated to and may enforce such rights of such creditor for the benefit of the estate.

(c) A lien created by or obtained in or pursuant to any suit or proceeding at law or in equity, including an attachment upon mesne process or a judgment by confession, which was begun against a person within four months before the filing of a petition in bankruptcy by or against such person shall be dissolved by the adjudication of such person to be a bankrupt if (1) it appears that said lien was obtained and permitted while the defendant was insolvent and that its existence and enforcement will work a preference or (2) the party or parties to be benefited thereby had reasonable cause to believe the defendant was insolvent and in contemplation of bankruptcy, or (3) that such lien was sought and permitted in fraud of the provisions of this Act; or if the dissolution of such lien would militate against the best interests of the estate of such person the same shall not be dissolved, but the trustee of the estate of such person, for the benefit of the estate, shall be subrogated to the rights of the holder of such lien and empowered to perfect and enforce the same in his name as trustee with like force and effect as such holder might have done had not bankruptcy proceedings intervened.

(d) Liens given or accepted in good faith and not in contemplation of or in fraud upon this Act, and for a present consideration, which have been recorded according to law, if record thereof was necessary in order to impart notice, shall, to the extent of such present consideration only, not be affected by this Act.

(e) All conveyances, transfers, assignments, or incumbrances of his property or any part thereof, made or given by a person adjudged a bankrupt under the provisions of this Act and within four months prior to the filing of the petition, with the intent and purpose on his part to hinder, delay, or defraud his creditors, or any of them, shall be null and void as against the creditors of such debtor, except as to purchasers in good faith and for a present fair consideration; and all property of the debtor conveyed, transferred, assigned, or encumbered as aforesaid, shall if he be adjudged a bankrupt, and the same is not exempt from execution and liability for debts by the law of his domicile, be and remain a part of the assets and estate of the bankrupt and shall pass to his said trustee, whose duty it shall be to recover and reclaim the same by legal proceedings or otherwise for the benefit of the creditors. And all conveyances, transfers, or incumbrances of his property made by a debtor at any time within four months prior to the filing of the petition against him, and while insolvent, which are held null and void as against the creditors of such debtor by the laws of the State, Territory, or District in which such prop-

erty is situate, shall be deemed null and void under this Act against the creditors of such debtor if he be adjudged a bankrupt, and such property shall pass to the assignee and be by him reclaimed and recovered for the benefit of the creditors of the bankrupt. For the purpose of such recovery any court of bankruptcy as hereinbefore defined, and any State court which would have had jurisdiction if bankruptcy had not intervened, shall have concurrent jurisdiction.

(f) All levies, judgments, attachments, or other liens, obtained through legal proceedings against a person who is insolvent, at any time within four months prior to the filing of a petition in bankruptcy against him, shall be deemed null and void in case he is adjudged a bankrupt, and the property affected by the levy, judgment, attachment or other lien shall be deemed wholly discharged and released from the same, and shall pass to the trustee as a part of the estate of the bankrupt, unless the court shall, on due notice, order that the right under such levy, judgment, attachment or other lien shall be preserved for the benefit of the estate; and thereupon the same may pass to and shall be preserved by the trustee for the benefit of the estate as aforesaid. And the court may order such conveyance as shall be necessary to carry the purposes of this section into effect: *Provided*, That nothing herein contained shall have the effect to destroy or impair the title obtained by such levy, judgment, attachment, or other lien, of a bona fide purchaser for value who shall have acquired the same without notice or reasonable cause for inquiry.

Sec. 70. (a) In all cases of mutual debts or mutual credits between the estate of a bankrupt and a creditor the account shall be stated and one debt shall be set off against the other, and the balance only shall be allowed or paid.

(b) A set-off or counterclaim shall not be allowed in favor of any debtor of the bankrupt which (1) is not provable against the estate; or (2) was purchased by or transferred to him after the filing of the petition, or within four months before such filing, with a view to such use and with knowledge or notice that such bankrupt was insolvent, or had committed an act of bankruptcy.

Sec. 71. (a) A judge may, upon satisfactory proof, by affidavit, that a bankrupt against whom an involuntary petition has been filed and is pending has committed an act of bankruptcy, or has neglected, or is neglecting, or is about to so neglect his property that it has thereby deteriorated or is thereby deteriorating or is about thereby to deteriorate in value, issue a warrant to the marshal to seize and hold it subject to further orders. Before such warrant is issued the petitioners applying therefor shall enter into a bond in such an amount as the judge shall fix, with such sureties as he shall approve, conditioned to indemnify such bankrupt for such damages as he shall sustain in the event such seizure shall prove to have been wrongfully obtained. Such property shall be released, if such bankrupt shall give bond in a sum which shall be fixed by the judge, with such sureties as he shall approve, conditioned to turn over such property, or pay the value thereof in money to the trustee, in the event he is adjudged a bankrupt pursuant to such petition.

Sec. 72. (a) The trustee of the estate of a bankrupt, upon his appointment and qualification, and his successor or successors, if he shall have one or more, upon his or their appointment and qualification, shall in turn be vested by operation of law with the title of the bankrupt, as of the date he was adjudged a bankrupt, except in so far as it is to property which is exempt, to all (1) documents relating to his property; (2) interests in patents, patent rights, copyrights, and trade-marks; (3) powers which he might have exercised for his own benefit, but not those which he might have exercised for some other person; (4) property transferred by him in fraud of his creditors; (5) property which prior to the filing of the petition he could by any means have transferred or which might have been levied upon and sold under judicial process against him: *Provided*, That when any bankrupt shall have any insurance policy which has a cash surrender value payable to him-

self, his estate, or personal representatives, he may, within thirty days after the cash surrender value has been ascertained and stated to the trustee by the company issuing the same, pay or secure to the trustee the sum so ascertained and stated, and continue to hold, own, and carry such policy free from the claims of the creditors participating in the distribution of his estate under the bankruptcy proceedings, otherwise the policy shall pass to the trustee as assets; and (6) rights of action arising upon contracts or from the unlawful taking or detention of, or injury to, his property.

(b) All real and personal property belonging to bankrupt estates shall be appraised by three disinterested appraisers; they shall be appointed by, and report to, the court. Real and personal property shall, when practicable, be sold subject to the approval of the court; it shall not be sold otherwise than subject to the approval of the court for less than seventy-five per centum of its appraised value.

(c) The title to property of a bankrupt estate which has been sold, as herein provided, shall be conveyed to the purchaser by the trustee.

(d) Whenever a composition shall be set aside, or discharge revoked, the trustee shall, upon his appointment and qualification, be vested as herein provided with the title to all of the property of the bankrupt as of the date of the final decree setting aside the composition or revoking the discharge.

(e) The trustee may avoid any transfer by the bankrupt of his property which any creditor of such bankrupt might have avoided, and may recover the property so transferred, or its value, from the person to whom it was transferred, unless he was a bona fide holder for value prior to the date of the adjudication. Such property may be recovered or its value collected from whoever may have received it, except a bona fide holder for value. For the purpose of such recovery any court of bankruptcy as hereinbefore defined, and any State court which would have had jurisdiction if bankruptcy had not intervened, shall have concurrent jurisdiction.

(f) Upon the confirmation of a composition offered by a bankrupt, the title to his property shall thereupon revert in him.

Sec. 73. Bankruptcy cases pending on the twenty-fifth of June, nineteen hundred and ten, shall be adjudicated and disposed of conformably to the provisions of law in force prior to said date.

## National Bank Tax

See Taxes.

## National Budget

See Bureau of the Budget.

## National Currency

Another name given to *National Bank Notes* (q. v.), and *Federal Reserve Bank Notes* (q. v.).

## National Debt

The aggregate of bonds, certificates of indebtedness, and other obligations of the United States Government. National debt should also include the sum of all forms of paper money, less the amount of gold and silver (at its gold value) in the Treasury or with depositories available for its redemption.

The pre-war debt of the United States Government (1913) was \$1,028,564,000. The post-war debt (as of June 30, 1920) was \$24,299,321,467. As of May 1, 1923, the



debt of the United States was about \$22,850,000,000.

At the close of the Civil War the per capita debt of the Federal Government was about \$80; in 1870, \$60.46; in 1880, \$38.27; in 1890, \$13.60; in 1902, \$12.22; in 1913, \$10.59; in 1923, about \$210. (See National Income, National Wealth.)

**National Farm Loan Association**

A local association of farmers organized under the terms of the Federal Farm Loan Act, for the purpose of borrowing money on farm mortgages. An association may be formed by ten or more farmers who must independently subscribe for shares of stock in the association to an amount equal to 5 per cent. of the face of the desired loan. Members are, therefore, stockholder-borrowers who are required to pay, at the time the loan is granted, \$5.00 in cash for one share of the par value of \$5.00 for each \$100 borrowed. The minimum capital for an association is \$1,000 and the minimum aggregate of loans \$20,000.

A local association is administered by a board of not less than five directors chosen from among the members. The board elects a President, Vice-President, Secretary-Treasurer, and a Loan Committee of three members. An association is required to indorse the mortgage notes of its members. These are converted into cash at the district Federal Land bank for the face amount, provided the appraised value of the mortgaged land is at least double that of the loan, and the amount borrowed by one member is not less than \$100 or more than \$10,000.

An association requires no building and may be conducted with a minimum of expense. The principal routine duties fall upon the Secretary-Treasurer who receives applications for membership and loans, collects interest and principal payments, and keeps the records of the association. Each association is required to subscribe for shares of the Federal Land bank of its district (par value \$5.00), to an amount equal to 5 per cent. of the aggregate sum desired on mortgage loans. Associations also aid in the sale of Federal Farm Loan bonds. (See Federal Farm Loan Act, Sec. 7, 8, 9, 10 and 11; Federal Farm Loan System.)

**National Income**

The National Bureau of Economic Research estimates the income of the people of the United States for the years 1909-1919 to be as indicated in the following table.

Year.	Total Nat'l. Income (Billions.)	Per Capita Income (In Dollars.)	Per Capita Income in 1913 Dollars.
1909.....	\$28.8	\$319	\$333
1910.....	31.4	340	349
1911.....	31.2	333	338
1912.....	33.0	346	348
1913.....	34.4	354	354
1914.....	33.2	335	333
1915.....	36.0	358	350
1916.....	45.4	446	400
1917.....	53.9	523	396
1918.....	61.0	586	372
1919.....	66.0 (estimated)		

In the year 1918 the distribution of the income of the people of the United States was as follows:

One per cent. of the population had an income of \$8,000 or more; 5 per cent., incomes above \$3,200; 10 per cent., incomes above \$2,300; 47 per cent., incomes above \$1,750; 53 per cent., incomes below \$1,750.

Taking average conditions for the above ten years in the principal organized industries, wages and salaries were about 70 per cent. of the total income, while capital received 30 per cent. as rent, interest, and profits. The sources of production of the national income, taking a general average for the ten years are: agricultural 17 per cent.; manufacturing 30 per cent.; transportation 9 per cent.; government 5 per cent.; mining 3 per cent.; banking 1 per cent.; miscellaneous (including professions, retailers, jobbers, merchants, domestics, etc.) 33 per cent.

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**National Monetary Commission**

The panic of 1907, perhaps the most serious monetary disturbance in the history of the United States, revealed the weakness of our banking, monetary and credit system, and renewed interest in devising methods of reform. As a result of the panic and the revival of public interest in banking reform, on May 30, 1908, Congress passed the so-called Aldrich-Vreeland Law, as a temporary relief measure until such time as new and thorough going constructive banking legislation could be formulated. With this end in view, the Act created the National Monetary Commission, the function of which was



to make an examination of the monetary and banking systems of the leading commercial nations of the world and to submit a report. The sections creating the National Monetary Commission are as follows:

"Sec. 17: That a Commission is hereby created, to be called the "National Monetary Commission," to be composed of nine members of the Senate, to be appointed by the presiding officer thereof, and nine members of the House of Representatives, to be appointed by the speaker thereof; and any vacancy on the commission shall be filled in the same manner as the original appointment.

"Sec. 18: That it shall be the duty of this commission to inquire into and report to Congress at the earliest date practicable, what changes are necessary or desirable in the monetary system of the United States, or in the laws relating to banking and currency and for this purpose they are authorized to sit during the sessions or recess of Congress, at such times and places as they may deem desirable, to send for persons and papers, to administer oaths, to summons and compel the attendance of witnesses, and to employ a disbursing officer and such secretaries, experts, stenographers, messengers and other assistants as shall be necessary to carry out the purposes for which said Commission was created. The Commission shall have power, through sub-committee or otherwise, to examine witnesses and to make such investigations or examinations in this or other countries, of the subjects committed to their charge as they shall deem necessary."

After four years of investigation, which included a study of banking, credit and currency systems at home and abroad and with the co-operation of economists, bankers and business leaders, the commission published the result of its findings in 46 volumes, which are listed below. These volumes have compelled widespread interest and constitute one of the most complete libraries on banking, credit, and currency, ever published.

In January 1912, the Commission reported in full to Congress and submitted a bill which later came to be known as the "Aldrich Plan," after Senator Aldrich, the Commission's Chairman. Many of the best features of this plan were later embodied in the Federal Reserve Act so that the recommendations with modifications of the Monetary Commission found tangible expression in the Act which controls our banking, credit and currency system today.

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**National Wealth**

Estimated to be as follows by the United States Census Bureau:

1912.....	\$187,739,071,090
1904.....	107,104,211,917
1900.....	88,517,306,775
1895.....	77,000,000,000
1890.....	65,037,090,000
1880.....	43,642,000,000
1870.....	30,068,518,000
1860.....	16,159,616,000
1850.....	7,135,780,000

The total national wealth was estimated by the Government Loan Organization to be \$300,000,000,000 on February 1, 1921.

**Negotiable**

Capable of having full title transferred by delivery or indorsement from the transferor to the transferee, regardless of any defect that may exist in the transferor's title, and upon which the transferee (or holder in due course), may sue in his own name. Notes, acceptances, checks, and drafts are negotiable. (See Negotiable Instruments, Negotiable Securities.)

### Negotiable Documents.

A general term to include all forms of *Negotiable Instruments* (q. v.), and other papers which are negotiable by delivery, *e. g.*, bearer notes, bearer bonds, coupons; or by delivery and indorsement, *e. g.*, promissory note, stock certificate, bill of lading. Technically, a negotiable instrument is one which calls for the payment of money. An instrument which contains an order or promise to do any act other than the payment of money is not a negotiable instrument within the meaning of the Negotiable Instruments Law. Bills of lading and warehouse receipts call for delivery of merchandise, and while they cannot be considered negotiable instruments, still they may be negotiated. Negotiable documents is a term employed to designate all papers which may be negotiated whether negotiable instruments or not (See Negotiable Instruments.)

### Negotiable Instruments

Written orders or promises to pay money which may be transferred from one person to another by delivery, or by indorsement and delivery, the full legal title thereby becoming vested in the transferee; and further, that the negotiation to a *Holder in Due Course* (q. v.), gives such holder the same rights as the original payee (promisee) free from any personal or equitable defense which might defeat them. In other words, one who has purchased a negotiable instrument in good faith and secured title by negotiation is the absolute owner. He does not merely purchase as good a title as the previous owner.

Negotiation is achieved (1) by delivery, *i. e.*, by merely handing it from one person to another, *e. g.*, when a note is made payable to bearer, or where the indorsement on a check is in blank; or (2) by *Indorsement* (q. v.), and delivery.

By the terms of the *Negotiable Instruments Law* (q. v.), an instrument to be negotiable must conform to the following requirements: (1) it must be in writing and signed by the maker or drawer; (2) must contain an unconditional promise or order to pay a certain sum in money; (3) must be payable on demand, or at a fixed or determinable future time; (4) must be payable to order or to bearer; and (5) where the instrument is addressed to a drawee, he must be named or otherwise indicated therein with reasonable certainty. It is always presumed that the parties to a negotiable instrument have legal capacity to contract, and that the instrument has been issued for a valuable consideration.

The principal negotiable instruments in the United States are checks, bills of exchange, promissory notes, and acceptances. A postal money order is not a negotiable instrument. (See Negotiable Securities.)

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### Negotiable Instruments Law

A law relating to negotiable instruments which was first codified and approved by several of the states in 1897, and has since been adopted and incorporated with certain modifications into the statutes of all the states. Prior to the enactment of this law cases growing out of litigation concerning bills, notes, and checks, were governed by the common law—a body of rules, customs, and principles which had been practice for centuries in England and the United States. The common law is resorted to even now when the negotiable instruments law does not cover the controversy. The law is therefore a crystallization of principles theretofore existing. The first restatement of the principles of the common law was the British Bills of Exchange Act enacted in 1882. The American act is to a large extent based upon the British law.

The purpose of the negotiable instruments law is to make uniform in all the states the law relating to a negotiable commercial paper. Commissioners appointed from most of the states meet annually in order to promote uniformity in state laws. In 1895 they undertook the first draft of the negotiable instruments law. In the following year it was recommended for adoption by the states and was adopted in 1897 by Florida, Connecticut, New York and Virginia. At the present time all the states have adopted this law, although in some cases it has been somewhat amended. The section numbers of the law as recommended by the commissioners have not always been followed by the several states. The law may be divided into three general chapters: the first dealing with negotiable instruments in general, their form and interpretation, negotiation, rights of holders, liabilities of parties, presentment, dishonor, discharge, etc. The second chapter deals with bills of exchange and the third with promissory notes and checks.

The following is the text of the negotiable instruments law as incorporated in the Statutes of New York State.



ARTICLE I.

GENERAL PROVISIONS.

- Section 1. Short title.  
 2. Definitions and meaning of terms.  
 3. Person primarily liable on instrument.  
 4. Reasonable time, what constitutes.  
 5. Time, how computed; when last day falls on holiday.  
 6. Application of Chapter.  
 7. Rule of law merchant; when governs.

§ 1. *Short title.*—This act shall be known as the negotiable instruments law.

§ 2. *Definitions and meaning of terms.*—In this act, unless the context otherwise requires:

“Acceptance” means an acceptance completed by delivery or notification.

“Action” includes counter-claim and set-off.

“Bank” includes any person or association of persons carrying on the business of banking, whether incorporated or not.

“Bearer” means the person in possession of a bill or note which is payable to bearer.

“Bill” means bill of exchange, and “note” means negotiable promissory note.

“Delivery” means transfer of possession, actual or constructive, from one person to another.

“Holder” means the payee or indorser of a bill or note, who is in possession of it, or the bearer thereof.

“Indorsement” means an indorsement completed by delivery.

“Instrument” means negotiable instrument.

“Issues” means the first delivery of the instrument, complete in form, to a person who takes it as a holder.

“Person” includes a body of persons, whether incorporated or not.

“Value” means valuable consideration.

“Written” includes printed, and “writing” includes print.

§ 3. *Person primarily liable on instrument.*—The person “primarily” liable on an instrument is the person who by the terms of the instrument is absolutely required to pay the same. All other parties are “secondarily” liable.

§ 4. *Reasonable time, what constitutes.*—In determining what is a “reasonable time” or an “unreasonable time,” regard is to be had to the nature of the instrument, the usage of trade or business (if any) with respect to such instruments, and the facts of the particular case.

§ 5. *Time, how computed; when last day falls on holiday.*—Where the day, or the last day, for doing any act herein required or permitted to be done falls on Sunday or on a holiday, the act may be done on the next succeeding secular or business day.

§ 6. *Application of chapter.*—The provisions of this act do not apply to negotiable instruments made and delivered prior to the passage hereof.

§ 7. *Law merchant; when governs.*—In any case not provided for in this act the rules of the law merchant shall govern.

ARTICLE II.

FORM AND INTERPRETATION.

- Section 20. Form of negotiable instrument.  
 21. Certainty as to sum; what constitutes.  
 22. When promise is unconditional.  
 23. Determinable future time; what constitutes.  
 24. Additional provisions not affecting negotiability.  
 25. Omissions; seal; particular money.  
 26. When payable on demand.  
 27. When payable to order.  
 28. When payable to bearer.  
 29. Terms when sufficient.  
 30. Date, presumption as to.  
 31. Ante-dated and post-dated.  
 32. When date may be inserted.  
 33. Blanks, when may be filled.  
 34. Incomplete instrument not delivered.  
 35. Delivery; when effectual; when presumed.  
 36. Construction where instrument is ambiguous.

- Section 37. Liability of person signing in trade or assumed name.  
 38. Signature by agent; authority; how shown.  
 39. Liability of person signing as agent, et cetera.  
 40. Signature by procurator; effect of.  
 41. Effect of indorsement by infant or corporation.  
 42. Forged signature; effect of.

§ 20. *Form of negotiable instrument.*—An instrument to be negotiable must conform to the following requirements:

1. It must be in writing and signed by the maker or drawer.

2. Must contain an unconditional promise or order to pay a sum certain in money.

3. Must be payable on demand, or at a fixed or determinable future time.

4. Must be payable to order or to bearer; and

5. Where the instrument is addressed to a drawee, he must be named or otherwise indicated, therein with reasonable certainty.

§ 21. *Certainty as to sum; what constitutes.*—The sum payable is a sum certain within the meaning of this act, although it is to be paid:

1. With interest; or

2. By stated instalments; or

3. By stated instalments, with a provision that upon default in payment of any instalment or of interest, the whole shall become due; or

4. With exchange, whether at a fixed rate or at the current rate; or

5. With costs of collection or an attorney’s fee, in case payment shall not be made at maturity.

§ 22. *When promise is unconditional.*—An unqualified order or promise to pay is unconditional within the meaning of this act, though coupled with:

1. An indication of a particular fund out of which reimbursement is to be made, or a particular account to be debited with the amount, or

2. A statement of the transaction which gives rise to the instrument.

But an order or promises to pay out of a particular fund is not unconditional.

§ 23. *Determinable future time; what constitutes.*—An instrument is payable at a determinable future time, within the meaning of this act, which is expressed to be payable:

1. At a fixed period after date or sight; or

2. On or before a fixed or determinable future time specified therein; or

3. On or at a fixed period after the occurrence of a specified event, which is certain to happen, though the time of happening be uncertain.

An instrument payable upon a contingency is not negotiable, and the happening of the event does not cure the defect.

§ 24. *Additional provisions not affecting negotiability.*—An instrument which contains an order or promise to do any act in addition to the payment of money is not negotiable. But the negotiable character of an instrument otherwise negotiable is not affected by a provision which:

1. Authorizes the sale of collateral securities in case the instrument be not paid at maturity; or

2. Authorizes a confession of judgment if the instrument be not paid at maturity; or

3. Waives the benefit of any law intended for the advantage or protection of the obligor; or

4. Gives the holder an election to require something to be done in lieu of payment of money.

But nothing in this section shall validate any provision or stipulation otherwise illegal.

§ 25. *Omissions; seal; particular money.*—The validity and negotiable character of an instrument are not affected by the fact that:

1. It is not dated; or

2. Does not specify the value given, or that any value has been given therefor; or

3. Does not specify the place where it is drawn or the place where it is payable; or

4. Bears a seal; or

5. Designates a particular kind of current money in which payment is to be made.

But nothing in this section shall alter or repeal any statute requiring in certain cases the nature of the consideration to be stated in the instrument.

§ 26. *When payable on demand.*—An instrument is payable on demand:

1. Where it is expressed to be payable on demand, or at sight, or on presentation; or

2. In which no time for payment is expressed.

Where an instrument is issued, accepted or indorsed when overdue, it is, as regards the person so issuing, accepting or indorsing it, payable on demand.

§ 27. *When payable to order.*—The instrument is payable to order where it is drawn payable to the order of a specified person or to him or his order. It may be drawn payable to the order of:

1. A payee who is not maker, drawer or drawee;

or

2. The drawer or maker; or

3. The drawee; or

4. Two or more payees jointly; or

5. One or some of several payees; or

6. The holder of an office for the time being.

Where the instrument is payable to order the payee must be named or otherwise indicated therein with reasonable certainty.

§ 28. *When payable to bearer.*—The instrument is payable to bearer:

1. When it is expressed to be so payable; or

2. When it is payable to a person named therein or bearer; or

3. When it is payable to the order of a fictitious or non-existing person, and such fact was known to the person making it so payable; or

4. When the name of the payee does not purport to be the name of any person; or

5. When the only or last indorsement is an indorsement in blank.

§ 29. *Terms when sufficient.*—The instrument need not follow the language of this act, but any terms are sufficient which clearly indicate an intention to conform to the requirements hereof.

§ 30. *Date, presumption as to.*—Where the instrument or an acceptance or any indorsement thereon is dated, such date is deemed *prima facie* to be the true date of the making, drawing, acceptance or indorsement, as the case may be.

§ 31. *Ante-dated and post-dated.*—The instrument is not invalid for the reason only that it is ante-dated or post-dated, provided this is not done for an illegal or fraudulent purpose. The person to whom an instrument so dated is delivered acquires the title thereto as of the date of delivery.

§ 32. *When date may be inserted.*—Where an instrument expressed to be payable at a fixed period after date is issued undated, or where the acceptance of an instrument payable at a fixed period after sight is undated, any holder may insert therein the true date of issue or acceptance, and the instrument shall be payable accordingly. The insertion of a wrong date does not avoid the instrument in the hands of a subsequent holder in due course; but as to him, the date so inserted is to be regarded as the true date.

§ 33. *Blanks; when may be filled.*—Where the instrument is wanting in any material particular, the person in possession thereof has a *prima facie* authority to complete it by filling up the blanks therein. And a signature on a blank paper delivered by the person making the signature in order that the paper may be converted into a negotiable instrument operates as a *prima facie* authority to fill it up as such for any amount. In order, however, that any such instrument, when completed, may be enforced against any person who became a party thereto prior to its completion, it must be filled up strictly in accordance with the authority given and within a reasonable time. But if any such instrument, after completion, is negotiated\* to a holder in due course, it is valid and effectual for all purposes in his hands, and he may enforce it as if it had been filled up strictly in accordance with the authority given and within a reasonable time.

§ 34. *Incomplete instrument not delivered.*—Where an incomplete instrument has not been delivered it will not, if completed and negotiated, without authority, be a valid contract in the hands

of any holder, as against any person whose signature was placed thereon before delivery.

§ 35. *Delivery; when effectual; when presumed.*—Every contract on a negotiable instrument is incomplete and revocable until delivery of the instrument.

\*The word "negotiated" substituted for "negotiable" by Laws N. Y. 1898, c. 336.

instrument for the purpose of giving effect thereto. As between immediate parties and as regards a remote party other than a holder in due course, the delivery, in order to be effectual, must be made either by or under the authority of the party making, drawing, accepting or indorsing, as the case may be; and in such case the delivery may be shown to have been conditional, or for a special purpose only, and not for the purpose of transferring the property in the instrument. But where the instrument is in the hands of a holder in due course, a valid delivery thereof by all parties prior to him so as to make them liable to him is conclusively presumed. And where the instrument is no longer in the possession of a party whose signature appears thereon, a valid and intentional delivery by him is presumed until the contrary is proved.

§ 36. *Construction where instrument is ambiguous.*—Where the language of the instrument is ambiguous, or there are omissions therein, the following rules of construction apply:

1. Where the sum payable is expressed in words and also in figures and there is a discrepancy between the two, the sum denoted by the words is the sum payable; but if the words are ambiguous or uncertain, references may be had to the figures to fix the amount;

2. Where the instrument provides for the payment of interest, without specifying the date from which interest is to run, the interest runs from the date of the instrument, and if the instrument is undated, from the issue thereof;

3. Where the instrument is not dated, it will be considered to be dated as of the time it was issued;

4. Where there is a conflict between the written and printed provisions of the instrument, the written provisions prevail;

5. Where the instrument is so ambiguous that there is doubt whether it is a bill or note, the holder may treat it as either at his election;

6. Where a signature is so placed upon the instrument that it is not clear in what capacity the person making the same intended to sign, he is to be deemed an indorser;

7. Where an instrument containing the words "I promise to pay" is signed by two or more persons, they are deemed to be jointly and severally liable thereon.

§ 37. *Liability of person signing in trade or assumed name.*—No person is liable on the instrument whose signature does not appear thereon, except as herein otherwise expressly provided. But one who signs in a trade or assumed name will be liable to the same extent as if he had signed in his own name.

§ 38. *Signature by agent; authority; how shown.*—The signature of any party may be made by a duly authorized agent. No particular form of appointment is necessary for this purpose; and the authority of the agent may be established as in other cases of agency.

§ 39. *Liability of person signing as agent, etc.*—Where the instrument contains or a person adds to his signature words indicating that he signs for or on behalf of a principal, or in a representative capacity, he is not liable on the instrument if he was duly authorized; but the mere addition of words describing him as an agent, or as filling a representative character, without disclosing his principal, does not exempt him from personal liability.

§ 40. *Signature by procuration; effect of.*—A signature by "procuration" operates as notice that the agent has but a limited authority to sign, and the principal is bound only in case the agent in so signing acted within the actual limits of his authority.

§ 41. *Effect of indorsement by infant or corporation.*—The indorsement or assignment of the instrument by a corporation or by an infant passes the property therein, notwithstanding that from



want of capacity the corporation or infant may incur no liability thereon.

§ 42. *Forged signature; effect of.*—Where a signature is forged or made without authority of the person whose signature it purports to be, it is wholly inoperative, and no right to retain the instrument, or to give a discharge therefor, or to enforce payment thereof against any party thereto, can be acquired through or under such signature, unless the party against whom it is sought to enforce such right is precluded from setting up the forgery or want of authority.

ARTICLE III.

CONSIDERATION OF NEGOTIABLE INSTRUMENTS.

- Section 50. Presumption of consideration.
- 51. What constitutes consideration.
- 52. What constitutes holder for value.
- 53. What lien on instrument constitutes holder for value.
- 54. Effect of want of consideration.
- 55. Liability of accommodation party.

§ 50. *Presumption of consideration.*—Every negotiable instrument is deemed *prima facie* to have been issued for a valuable consideration; and every person whose signature appears thereon to have become a party thereto for value.

§ 51. *Consideration, what constitutes.*—Value is any consideration sufficient to support a simple contract. An antecedent or pre-existing debt constitutes value; and is deemed such whether the instrument is payable on demand or at a future time.

§ 52. *What constitutes holder for value.*—Where value has at any time been given for the instrument, the holder is deemed a holder for value in respect to all parties who became such prior to that time.

§ 53. *When lien on instrument constitutes holder for value.*—Where the holder has a lien on the instrument, arising either from contract or by implication of law, he is deemed a holder for value to the extent of his lien.

§ 54. *Effect of want of consideration.*—Absence or failure of consideration is matter of defense as against any person not a holder in due course; and partial failure of consideration is a defense *pro tanto*, whether the failure is an ascertained and liquidated amount or otherwise.

§ 55. *Liability of accommodation party.*—An accommodation party is one who has signed the instrument as maker, drawer, acceptor or indorser, without receiving value therefor, and for the purpose of lending his name to some other person. Such a person is liable on the instrument to a holder for value, notwithstanding such holder at the time of taking the instrument knew him to be only an accommodation party.

ARTICLE IV.

NEGOTIATION.

- Section 60. What constitutes negotiation.
- 61. Indorsement; how made.
- 62. Indorsement must be of entire instrument.
- 63. Kinds of indorsement.
- 64. Special indorsement; indorsement in blank.
- 65. Blank indorsement; how changed to special indorsement.
- 66. When indorsement restrictive.
- 67. Effect of restrictive indorsement; rights of indorsee.
- 68. Qualified indorsement.
- 69. Conditional indorsement.
- 70. Indorsement of instrument payable to bearer.
- 71. Indorsement where payable to two or more persons.
- 72. Effect of instrument drawn or indorsed to a person as cashier.
- 73. Indorsement where name is misspelled, et cetera.
- 74. Indorsement in representative capacity.
- 75. Time of indorsement; presumption.
- 76. Place of indorsement; presumption.
- 77. Continuation of negotiable character.
- 78. Striking out indorsement.

Section 79. Transfer without indorsement; effect of.

80. When prior party may negotiate instrument.

§ 60. *What constitutes negotiation.*—An instrument is negotiated when it is transferred from one person to another in such manner as to constitute the transferee the holder thereof. If payable to bearer it is negotiated by delivery; if payable to order it is negotiated by the indorsement of the holder completed by delivery.

§ 61. *Indorsement; how made.*—The indorsement must be written on the instrument itself or upon a paper attached thereto. The signature of the indorser, without additional words, is a sufficient indorsement.

§ 62. *Indorsement must be of entire instrument.*—The indorsement must be an indorsement of the entire instrument. An indorsement, which purports to transfer to the indorsee a part only of the amount payable, or which purports to transfer the instrument to two or more indorsees severally, does not operate as a negotiation of the instrument. But where the instrument has been paid in part, it may be indorsed as to the residue.

§ 63. *Kinds of indorsement.*—An indorsement may be either special or in blank; and it may also be either restrictive or qualified, or conditional.

§ 64. *Special indorsement; indorsement in blank.*—A special indorsement specifies the person to whom, or to whose order the instrument is to be payable; and the indorsement of such indorsee is necessary to the further negotiation of the instrument. An indorsement in blank specifies no indorsee, and an instrument so indorsed is payable to bearer, and may be negotiated by delivery.

§ 65. *Blank indorsement; how changed to special indorsement.*—The holder may convert a blank indorsement into a special indorsement by writing over the signature of the indorser in blank and contract consistent with the character of the indorsement.

§ 66. *When indorsement restrictive.*—An indorsement is restrictive, which either:

1. Prohibits the further negotiation of the instrument; or
2. Constitutes the indorsee the agent of the indorser; or
3. Vests the title in the indorsee in trust for or to the use of some other person.

But the mere absence of words implying power to negotiate does not make an indorsement restrictive.

§ 67. *Effect of restrictive indorsement; rights of indorsee.*—A restrictive indorsement confers upon the indorsee the right:

1. To receive payment of the instrument;
2. To bring any action thereon that the indorser could bring;
3. To transfer his rights as such indorsee, where the form of the indorsement authorizes him to do so.

But all subsequent indorsees acquire only the title of the first indorsee under the restrictive indorsement.

§ 68. *Qualified indorsement.*—A qualified indorsement constitutes the indorser a mere assignor of the title of the instrument. It may be made by adding to the indorser's signature the words "without recourse" or any words of similar import. Such an indorsement does not impair the negotiable character of the instrument.

§ 69. *Conditional indorsement.*—Where an indorsement is conditional, a party required to pay the instrument may disregard the condition and make payment to the indorsee or his transferee, whether the condition has been fulfilled or not. But any person to whom an instrument so indorsed is negotiated will hold the same, or the proceeds thereof, subject to the rights of the person indorsing conditionally.

§ 70. *Indorsement of instrument payable to bearer.*—Where an instrument, payable to bearer, is indorsed specially, it may nevertheless be further negotiated by delivery; but the person indorsing specially is liable as indorser to only such holders as make title through his indorsement.



§ 71. *Indorsement where payable to two or more persons.*—Where an instrument is payable to the order of two or more payees or indorsees who are not partners, all must indorse, unless the one indorsing has authority to indorse for the others.

§ 72. *Effect of instrument drawn or indorsed to a person as cashier.*—Where an instrument is drawn or indorsed to a person as "cashier" or other fiscal officer of a bank or corporation, it is deemed *prima facie* to be payable to the bank or corporation of which he is such officer; and may be negotiated by either the indorsement of the bank or corporation, or the indorsement of the officer.

§ 73. *Indorsement where name is misspelled, et cetera.*—Where the name of the payee or indorsee is wrongly designated or misspelled, he may indorse the instrument as therein described, adding, if he think fit, his proper signature.

§ 74. *Indorsement in representative capacity.*—Where any person is under obligation to indorse in a representative capacity, he may indorse in such terms as to negative personal liability.

§ 75. *Time of indorsement; presumption.*—Except where an indorsement bears date after the maturity of the instrument, every negotiation is deemed *prima facie* to have been effected before the instrument was overdue.

§ 76. *Place of indorsement; presumption.*—Except where the contrary appears every indorsement is presumed *prima facie* to have been made at the place where the instrument is dated.

§ 77. *Continuation of negotiable character.*—An instrument negotiable in its origin continues to be negotiable until it has been restrictively indorsed or discharged by payment or otherwise.

§ 78. *Striking out indorsement.*—The holder may at any time strike out any indorsement which is not necessary to his title. The indorser whose indorsement is struck out, and all indorsers subsequent to him, are thereby relieved from liability on the instrument.

§ 79. *Transfer without indorsement; effect of.*—Where the holder of an instrument payable to his order transfers it for value without indorsing it, the transfer vests in the transferee such title as the transferer had therein, and the transferee acquires, in addition, the right to have the indorsement of the transferer. But for the purpose of determining whether the transferee is a holder in due course, the negotiation takes effect as of the time when the indorsement is actually made.

§ 80. *When prior party may negotiate instrument.*—Where an instrument is negotiated back to a prior party, such party may, subject to the provisions of this act, reissue and further negotiate the same. But he is not entitled to enforce payment thereof against any intervening party to whom he was personally liable.

#### ARTICLE V.

##### RIGHTS OF HOLDER.

- Section 90. Right of holder to sue; payment.
91. What constitutes a holder in due course.
92. When person not deemed holder in due course.
93. Notice before full amount paid.
94. When title defective.
95. What constitutes notice of defect.
96. Rights of holder in due course.
97. When subject to original defenses.
98. Who deemed holder in due course.

§ 90. *Right of holder to sue; payment.*—The holder of a negotiable instrument may sue thereon in his own name; and payment to him in due course discharges the instrument.

§ 91. *What constitutes a holder in due course.*—A holder in due course is a holder who has taken the instrument under the following conditions:

1. That it is complete and regular upon its face;
2. That he became the holder of it before it was overdue, and without notice that it had been previously dishonored, if such were the fact;
3. That he took it in good faith and for value;
4. That at the time it was negotiated to him he had no notice of any infirmity in the instrument or defect in the title of the person negotiating it.

§ 92. *When person not deemed holder in due course.*—Where an instrument payable on demand is negotiated an unreasonable length of time after its issue, the holder is not deemed a holder in due course.

§ 93. *Notice before full amount paid.*—Where the transferee receives notice of any infirmity in the instrument or defect in the title of the person negotiating the same before he has paid the full amount agreed to be paid therefor, he will be deemed a holder in due course only to the extent of the amount theretofore paid by him.

§ 94. *When title defective.*—The title of a person who negotiates an instrument is defective within the meaning of this act when he obtained the instrument, or any signature thereto, by fraud, duress, or force and fear, or other unlawful means, or for an illegal consideration, or when he negotiates it in breach of faith, or under such circumstances as amount to a fraud.

§ 95. *What constitutes notice of defect.*—To constitute notice of an infirmity in the instrument or defect in the title of the person negotiating the same, the person to whom it is negotiated must have had actual knowledge of the infirmity or defect, or knowledge of such facts that his action in taking the instrument amounted to bad faith.

§ 96. *Rights of holder in due course.*—A holder in due course holds the instrument free from any defect of title of prior parties and free from defenses available to prior parties among themselves, and may enforce payment of the instrument for the full amount thereof against all parties liable thereon.

§ 97. *When subject to original defenses.*—In the hands of any holder other than a holder in due course, a negotiable instrument is subject to the same defenses as if it were non-negotiable. But a holder who derives his title through a holder in due course, and who is not himself a party to any fraud or illegality affecting the instrument, has all the rights of such former holder in respect of all parties prior to the latter.

§ 98. *Who deemed holder in due course.*—Every holder is deemed *prima facie* to be a holder in due course; but when it is shown that the title of any person who has negotiated the instrument was defective, the burden is on the holder to prove that he or some person under whom he claims acquired the title as a holder in due course. But the last-mentioned rule does not apply in favor of a party who became bound on the instrument prior to the acquisition of such defective title.

#### ARTICLE VI.

##### LIABILITIES OF PARTIES.

- Section 110. Liability of maker.
111. Liability of drawer.
112. Liability of acceptor.
113. When person deemed indorser.
114. Liability of irregular indorser.
115. Warranty; where negotiation by delivery et cetera.
116. Liability of general indorsers.
117. Liability of indorser where paper negotiable by delivery.
118. Order in which indorsers are liable.
119. Liability of agent or broker.

§ 110. *Liability of maker.*—The maker of a negotiable instrument by making it engages that he will pay it according to its tenor; and admits the existence of the payee and his then capacity to indorse.

§ 111. *Liability of drawer.*—The drawer by drawing the instrument admits the existence of the payee and his then capacity to indorse; and engages that on due presentment the instrument will be accepted and paid, or both, according to its tenor, and that if it be dishonored and the necessary proceedings on dishonor be duly taken, he will pay the amount thereof to the holder, or to any subsequent indorser who may be compelled to pay it. But the drawer may insert in the instrument an express stipulation negating or limiting his own liability to the holder.

§ 112. *Liability of acceptor.*—The acceptor by accepting the instrument engages that he will pay it according to the tenor of his acceptance; and admits:

1. The existence of the drawer, the genuineness of his signature, and his capacity and authority to draw the instrument; and

2. The existence of the payee and his then capacity to indorse.

§ 113. *When person deemed indorser.*—A person placing his signature upon an instrument otherwise than as maker, drawer or acceptor is deemed to be an indorser, unless he clearly indicates by appropriate words, his intention to be bound in some other capacity.

§ 114. *Liability of irregular indorser.*—Where a person, not otherwise a party to an instrument, places thereon his signature in blank before delivery, he is liable as indorser in accordance with the following rules:

1. If the instrument is payable to the order of a third person, he is liable to the payee and to all subsequent parties.

2. If the instrument is payable to the order of the maker or drawer, or is payable to bearer, he is liable to all parties subsequent to the maker or drawer.

3. If he signs for the accommodation of the payee he is liable to all parties subsequent to the payee.

§ 115. *Warranty where negotiation by delivery, et cetera.*—Every person negotiating an instrument by delivery or by a qualified indorsement, warrants:

1. That the instrument is genuine and in all respects what it purports to be;

2. That he has a good title to it;

3. That all prior parties had capacity to contract;

4. That he has no knowledge of any fact which would impair the validity of the instrument or render it valueless.

But when the negotiation is by delivery only, the warranty extends in favor of no holder other than the immediate transferee. The provisions of subdivision three of this section do not apply to persons negotiating public or corporate securities, other than bills and notes.

§ 116. *Liability of general indorser.*—Every indorser who indorses without qualification, warrants to all subsequent holders in due course:

1. The matter and things mentioned in subdivisions one, two and three of the next preceding section; and

2. That the instrument is at the time of his indorsement valid and subsisting.

And, in addition, he engages that on due presentment, it shall be accepted or paid, or both, as the case may be, according to its tenor, and that if it be dishonored, and the necessary proceedings on dishonor be duly taken, he will pay the amount thereof to the holder, or to any subsequent indorser who may be compelled to pay it.

§ 117. *Liability of indorser where paper negotiable by delivery.*—Where a person places his indorsement on an instrument negotiable by delivery he incurs all the liabilities of an indorser.

§ 118. *Order in which indorsers are liable.*—As respects one another, indorsers are liable *prima facie* in the order in which they indorse; but evidence is admissible to show that as between or among themselves they have agreed otherwise. Joint payees or joint indorsees who indorse are deemed to indorse jointly and severally.

§ 119. *Liability of agent or broker.*—Where a broker or other agent negotiates an instrument without indorsement, he incurs all the liabilities prescribed by section one hundred and fifteen of this act, unless he discloses the name of his principal, and the fact that he is acting only as agent.

ARTICLE VII.

PRESENTMENT FOR PAYMENT.

Section 130. Effect of want of demand on principal debtor.

131. Presentment where instrument is not payable on demand.

Section 132. What constitutes a sufficient presentment.

133. Place of presentment.

134. Instrument must be exhibited.

135. Presentment where instrument payable at bank.

136. Presentment where principal debtor is dead.

137. Presentment to persons liable as partners.

138. Presentment to joint debtors.

139. When presentment not required to charge the drawer.

140. When presentment not required to charge the indorser.

141. When delay in making presentment is excused.

142. When presentment may be dispensed with.

143. When instrument dishonored by non-payment.

144. Liability of person secondarily liable, when instrument dishonored.

145. Time of maturity.

146. Time; how computed.

147. Rule where instrument payable at bank.

148. What constitutes payment in due course.

§ 130. *Effect of want of demand on principal debtor.*—Presentment for payment is not necessary in order to charge the person primarily liable on the instrument; but if the instrument is, by its terms, payable at a special place, and he is able and willing to pay it there at maturity and has funds there available for that purpose, such ability and willingness are equivalent to a tender of payment upon his part. But except as herein otherwise provided, presentment for payment is necessary in order to charge the drawer and indorsers.

§ 131. *Presentment where instrument is not payable on demand.*—Where the instrument is not payable on demand, presentment must be made on the day it falls due. Where it is payable on demand, presentment must be made within a reasonable time after its issue, except that in case of a bill of exchange, presentment for payment will be sufficient if made within a reasonable time after the last negotiation thereof.

§ 132. *What constitutes a sufficient presentment.*—Presentment for payment, to be sufficient, must be made:

1. By the holder, or by some person authorized to receive payment on his behalf;

2. At a reasonable hour on a business day;

3. At a proper place as herein defined;

4. To the person primarily liable on the instrument, or if he is absent or inaccessible, to any person found at the place where the presentment is made.

§ 133. *Place of presentment.*—Presentment for payment is made at the proper place.

1. Where a place of payment is specified in the instrument and it is there presented;

2. Where no place of payment is specified, but the address of the person to make payment is given in the instrument and it is there presented;

3. Where no place of payment is specified and no address is given and the instrument is presented at the usual place of business or residence of the person to make payment.

4. In any other case if presented to the person to make payment wherever he can be found, or if presented at his last known place of business or residence.

§ 134. *Instrument must be exhibited.*—The instrument must be exhibited to the person from whom payment is demanded, and when it is paid must be delivered up to the party paying it.

§ 135. *Presentment where instrument payable at bank.*—Where the instrument is payable at a bank, presentment for payment must be made during banking hours, unless the person to make payment has no funds there to meet it at any time during the day, in which case presentment at any hour before the bank is closed on that day is sufficient.

§ 136. *Presentment where principal debtor is dead.*—Where the person primarily liable on the in-



strument is dead, and no place of payment is specified, presentment for payment must be made to his personal representative, if such there be, and if with the exercise of reasonable diligence, he can be found.

§ 137. *Presentment to persons liable as partners.*—Where the persons primarily liable on the instrument are liable as partners, and no place of payment is specified, presentment for payment may be made to any one of them, even though there has been a dissolution of the firm.

§ 138. *Presentment to joint debtors.*—Where there are several persons not partners, primarily liable on the instrument, and no place of payment is specified, presentment must be made to them all.

§ 139. *When presentment not required to charge the drawer.*—Presentment for payment is not required in order to charge the drawer where he has no right to expect or require that the drawee or acceptor will pay the instrument.

§ 140. *When presentment not required to charge the indorser.*—Presentment for payment is not required in order to charge an indorser where the instrument was made or accepted for his accommodation, and he has no reason to expect that the instrument will be paid if presented.

§ 141. *When delay in making presentment is excused.*—Delay in making presentment for payment is excused when the delay is caused by circumstances beyond the control of the holder and not imputable to his default, misconduct or negligence. When the cause of delay ceases to operate, presentment must be made with reasonable diligence.

§ 142. *When presentment may be dispensed with.*—Presentment for payment is dispensed with:

1. Where, after the exercise of reasonable diligence presentment as required by this act cannot be made;

2. Where the drawer is a fictitious person;

3. By waiver of presentment express or implied.

§ 143. *When instrument dishonored by non-payment.*—The instrument is dishonored by non-payment when:

1. It is duly presented for payment and payment is refused or cannot be obtained; or

2. Presentment is excused and the instrument is overdue and unpaid.

§ 144. *Liability of person secondarily liable, when instrument dishonored.*—Subject to the provisions of this act, when the instrument is dishonored by non-payment, an immediate right of recourse to all parties secondarily liable thereon, accrues to the holder.

§ 145. *Time of maturity.*—Every negotiable instrument is payable at the time fixed therein without grace. When the day of maturity falls upon Sunday or a holiday, the instrument is payable on the next succeeding business day. Instruments falling due or becoming payable\* on Saturday are to be presented for payment on the next succeeding business day, except that instruments payable on demand may, at the option of the holder, be presented for payment before twelve o'clock noon on Saturday when that entire day is not a holiday.

§ 146. *Time; how computed.*—Where the instrument is payable at a fixed period after date, after sight, or after the happening of a specified event, the time of payment is determined by excluding the day from which the time is to begin to run, and by including the date of payment.

§ 147. *Rule where instrument payable at bank.*—Where the instrument is made payable at a bank it is equivalent to an order to the bank to pay the same for the account of the principal debtor thereon.

§ 148. *What constitutes payment in due course.*—Payment is made in due course when it is made at or after the maturity of the instrument to the holder thereof in good faith and without notice that his title is defective.

\* The words "or becoming payable" were added by Laws N. Y. 1898, c. 336. They are not in the statute in the other States.

## ARTICLE VIII.

### NOTICE OF DISHONOR.

Section 160. To whom notice of dishonor must be given.

161. By whom given.

162. Notice given by agent.

163. Effect of notice given on behalf of holder.

164. Effect where notice is given by party entitled thereto.

165. When agent may give notice.

166. When notice sufficient.

167. Form of notice.

168. To whom notice may be given.

169. Notice where party is dead.

170. Notice to partners.

171. Notice to persons jointly liable.

172. Notice to bankrupt.

173. Time within which notice must be given.

174. Where parties reside in same place.

175. Where parties reside in different places.

176. When sender deemed to have given due notice.

177. Deposit in post-office, what constitutes.

178. Notice to subsequent parties, time of.

179. Where notice must be sent.

180. Waiver of notice.

181. Whom affected by waiver.

182. Waiver of protest.

183. When notice dispensed with.

184. Delay in giving notice; how excused.

185. When notice need not be given to drawer.

186. When notice need not be given to indorser.

187. Notice of non-payment where acceptance refused.

188. Effect on omission to give notice of non-acceptance.

189. When protest need not be made; when must be made.

§ 160. *To whom notice of dishonor must be given.*—Except as herein otherwise provided, when a negotiable instrument has been dishonored by non-acceptance or non-payment, notice of dishonor must be given to the drawer and to each indorser, and any drawer or indorser to whom such notice is not given is discharged.

§ 161. *By whom given.*—The notice may be given by or on behalf of the holder, or by or on behalf of any party to the instrument who might be compelled to pay it to the holder, and who, upon taking it up, would have a right to reimbursement from the party to whom the notice is given.

§ 162. *Notice given by agent.*—Notice of dishonor may be given by an agent either in his own name or in the name of any party entitled to give notice, whether that party be his principal or not.

§ 163. *Effect of notice given on behalf of holder.*—Where notice is given by or on behalf of the holder, it enures for the benefit of all subsequent holders and all prior parties who have a right of recourse against the party to whom it is given.

§ 164. *Effect where notice is given by party entitled thereto.*—Where notice is given by or on behalf of a party entitled to give notice, it enures for the benefit of the holder and all parties subsequent to the party to whom notice is given.

§ 165. *When agent may give notice.*—Where the instrument has been dishonored in the hands of an agent, he may either himself give notice to the parties liable thereon, or he may give notice to his principal. If he give notice to his principal, he must do so within the same time as if he were the holder, and the principal, upon the receipt of such notice, has himself the same time for giving notice as if the agent had been an independent holder.

§ 166. *When notice sufficient.*—A written notice need not be signed, and an insufficient written notice may be supplemented and validated by verbal communication. A misdescription of the instrument does not vitiate the notice unless the party to whom the notice is given is in fact misled thereby.

§ 167. *Form of notice.*—The notice may be written or merely oral, and may be given in any terms which sufficiently identify the instrument, and indicate that it has been dishonored by non-acceptance or non-payment. It may in all cases be given by delivering it personally or through the mails.

§ 168. *To whom notice may be given.*—Notice of dishonor may be given either to the party himself or to his agent in that behalf.

§ 169. *Notice where party is dead.*—When any party is dead, and his death is known to the party giving notice, the notice must be given to a personal representative, if there be one, and if with reasonable diligence he can be found. If there be no personal representative, notice may be sent to the last residence or last place of business of the deceased.

§ 170. *Notice to partners.*—Where the parties to be notified are partners, notice to any one partner is notice to the firm, even though there has been a dissolution.

§ 171. *Notice to persons jointly liable.*—Notice to joint parties who are not partners must be given to each of them, unless one of them has authority to receive such notice for the others.

§ 172. *Notice to bankrupt.*—Where a party has been adjudged a bankrupt or an insolvent, or has made an assignment for the benefit of creditors, notice may be given either to the party himself or to his trustee or assignee.

§ 173. *Time within which notice must be given.*—Notice may be given as soon as the instrument is dishonored; and unless delay is excused as herein-after provided, must be given within the times fixed by this act.

§ 174. *Where parties reside in the same place.*—Where the person giving and the person to receive notice reside in the same place, notice must be given within the following times:

1. If given at the place of business of the person to receive notice, it must be given before the close of business hours on the day following:

2. If given at his residence, it must be given before the usual hours of rest on the day following:

3. If sent by mail, it must be deposited in the post office in time to reach him in usual course on the day following.

§ 175. *Where parties reside in different places.*—Where the person giving and the person to receive notice reside in different places, the notice must be given within the following times:

1. If sent by mail, it must be deposited in the post office in time to go by mail the day following the day of dishonor, or if there be no mail at a convenient hour on that day, by the next mail thereafter.

2. If given otherwise than through the post office, then within the time that notice would have been received in due course of mail, if it had been deposited in the post office within the time specified in the last subdivision.

§ 176. *When sender deemed to have given due notice.*—Where notice of dishonor is duly addressed and deposited in the post office, the sender is deemed to have given due notice, notwithstanding any miscarriage in the mails.

§ 177. *Deposit in post office; what constitutes.*—Notice is deemed to have been deposited in the post office when deposited in any branch post office or in any letter-box under the control of the Post Office Department.

§ 178. *Notice to subsequent party; time of.*—Where a party receives notice of dishonor, he has, after the receipt of such notice, the same time for giving notice to antecedent parties that the holder has after the dishonor.

§ 179. *Where notice must be sent.*—Where a party has added an address to his signature, notice of dishonor must be sent to that address; but if he has not given such address, then the notice must be sent as follows:

1. Either to the post office nearest to his place of residence, or to the post office where he is accustomed to receive his letters; or

2. If he live in one place, and have his place of business in another, notice may be sent to either place; or

3. If he is sojourning in another place, notice may be sent to the place where he is so sojourning.

But where the notice is actually received by the party within the time specified in this act, it will be sufficient, though not sent in accordance with the requirements of this section.

§ 180. *Waiver of Notice.*—Notice of dishonor may be waived, either before the time of giving notice has arrived, or after the omission to give due notice, and the waiver may be express or implied.

§ 181. *Whom affected by waiver.*—Where the waiver is embodied in the instrument itself, it is binding upon all parties; but where it is written above the signature of an indorser, it binds him only.

§ 182. *Waiver of protest.*—A waiver of protest, whether in the case of a foreign bill of exchange or other negotiable instrument, is deemed to be a waiver not only of a formal protest, but also of presentment and notice of dishonor.

§ 183. *When notice is dispensed with.*—Notice of dishonor is dispensed with when, after the exercise of reasonable diligence, it cannot be given to or does not reach the parties sought to be charged.

§ 184. *Delay in giving notice; how excused.*—Delay in giving notice of dishonor is excused when the delay is caused by circumstances beyond the control of the holder and not imputable to his default, misconduct or negligence. When the cause of delay ceases to operate, notice must be given with reasonable diligence.

§ 185. *When notice need not be given to drawer.*—Notice of dishonor is not required to be given to the drawer in either of the following cases:

1. Where the drawer and drawee are the same person;

2. Where the drawee is a fictitious person or a person not having capacity to contract;

3. Where the drawer is the person to whom the instrument is presented for payment.

4. Where the drawer has no right to expect or require that the drawee or acceptor will honor the instrument;

5. Where the drawer has countermanded payment.

§ 186. *When notice need not be given to indorser.*—Notice of dishonor is not required to be given to an indorser in either of the following cases:

1. Where the drawee is a fictitious person or a person not having capacity to contract, and the indorser was aware of the fact at the time he indorsed the instrument;

2. Where the indorser is the person to whom the instrument is presented for payment;

3. Where the instrument was made or accepted for his accommodation.

§ 187. *Notice of non-payment where acceptance refused.*—Where due notice of dishonor by non-acceptance has been given, notice of a subsequent dishonor by non-payment is not necessary, unless in the meantime the instrument has been accepted.

§ 188. *Effect of omission to give notice of non-acceptance.*—An omission to give notice of dishonor by non-acceptance does not prejudice the rights of a holder in due course subsequent to the omission.

§ 189. *When protest need not be made; when must be made.*—Where any negotiable instrument has been dishonored it may be protested for non-acceptance or non-payment, as the case may be; but protest is not required, except in the case of foreign bills of exchange.

ARTICLE IX.

DISCHARGE OF NEGOTIABLE INSTRUMENTS.

Section 200. Instrument; how discharged.

201. When person secondarily liable on, discharged.

202. Right of party who discharges instrument.

203. Renunciation by holder.

204. Cancellation; unintentional; burden of proof.

205. Alteration of instrument; effect of.

206. What constitutes a material alteration.



§ 200. *Instrument; how discharged.*—A negotiable instrument is discharged:

1. By payment in due course by or on behalf of the principal debtor;
2. By payment in due course by the party accommodated, where the instrument is made or accepted for accommodation;
3. By the intentional cancellation thereof by the holder;
4. By any other act which will discharge a simple contract for the payment of money;
5. When the principal debtor becomes the holder of the instrument at or after maturity in his own right.

§ 201. *When persons secondarily liable on, discharged.*—A person secondarily liable on the instrument is discharged:

1. By any act which discharges the instrument.
2. By the intentional cancellation of his signature by the holder;
3. By the discharge of a prior party;
4. By a valid tender of payment made by a prior party.
5. By the release of the principal debtor, unless the holder's right of recourse against the party secondarily liable is expressly reserved;
6. By any agreement binding upon the holder to extend the time of payment or to postpone the holder's right to enforce the instrument, unless the right of recourse against such party is expressly reserved.

§ 202. *Right of party who discharges instrument.*—Where the instrument is paid by a party secondarily liable thereon, it is not discharged; but the party so paying it is remitted to his former rights as regards all prior parties, and he may strike out his own and all subsequent indorsements, and again negotiate the instrument, except:

1. Where it is payable to the order of a third person, and has been paid by the drawer; and
2. Where it was made or accepted for accommodation, and has been paid by the party accommodated.

§ 203. *Renunciation by holder.*—The holder may expressly renounce his rights against any party to the instrument, before, at or after its maturity. An absolute and unconditional renunciation of his rights against the principal debtor made at or after the maturity of the instrument, discharges the instrument. But a renunciation does not affect the rights of a holder in due course without notice. A renunciation must be in writing, unless the instrument is delivered up to the person primarily liable thereon.

§ 204. *Cancellation; unintentional; burden of proof.*—A cancellation made unintentionally, or under a mistake, or without the authority of the holder, is inoperative; but where an instrument or any signature thereon appears to have been canceled the burden of proof lies on the party who alleges that the cancellation was made unintentionally, or under a mistake or without authority.

§ 205. *Alteration of instrument; effect of.*—Where a negotiable instrument is materially altered without the assent of all parties liable thereon, it is avoided, as against a party who has himself made, authorized or assented to the alteration and subsequent indorsers. But when an instrument has been materially altered and is in the hands of a holder in due course, not a party to the alteration, he may enforce payment thereof according to its original tenor.

§ 206. *What constitutes a material alteration.*—Any alteration which changes:

1. The date;
2. The sum payable, either for principal or interest;
3. The time or place of payment;
4. The number or the relations of the parties;
5. The medium or currency in which payment is to be made;

Or which adds a place of payment where no place of payment is specified, or any other change or addition which alters the effect of the instrument in any respect, is a material alteration.

## ARTICLE X

### BILLS OF EXCHANGE; FORM AND INTERPRETATION.

Section 210. Bill of exchange defined.

211. Bill not an assignment of funds in hands of drawee.

212. Bill addressed to more than one drawee.

213. Inland and foreign bills of exchange.

214. When bill may be treated as promissory note.

215. Referee in case of need.

§ 210. *Bill of exchange defined.*—A bill of exchange is an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to order or to bearer.

§ 211. *Bill not an assignment of funds in hands of drawee.*—A bill of itself does not operate as an assignment of the funds in the hands of the drawee available for the payment thereof, and the drawee is not liable on the bill unless and until he accepts the same.

§ 212. *Bill addressed to more than one drawee.*—A bill may be addressed to two or more drawees jointly, whether they are partners or not; but not to two or more drawees in the alternative or in succession.

§ 213. *Inland and foreign bills of exchange.*—An inland bill of exchange is a bill which is, or on its face purports to be, both drawn and payable within the State. Any other bill is a foreign bill. Unless the contrary appears on the face of the bill, the holder may treat it as an inland bill.

§ 214. *When bill may be treated as promissory note.*—Where in a bill the drawer and drawee are the same person, or where the drawee is a fictitious person, or a person not having capacity to contract, the holder may treat the instrument, at his option, either as a bill of exchange or a promissory note.

§ 215. *Referee in case of need.*—The drawer of a bill and any indorser may insert thereon the name of a person to whom the holder may resort in case of need, that is to say, in case the bill is dishonored by non-acceptance or non-payment. Such person is called the referee in case of need. It is in the option of the holder to resort to the referee in case of need or not, as he may see fit.

## ARTICLE XI.

### ACCEPTANCE OF BILLS OF EXCHANGE.

Section 220. Acceptance, how made, et cetera.

221. Holder entitled to acceptance on face of bill.

222. Acceptance by separate instrument.

223. Promise to accept; when equivalent to acceptance.

224. Time allowed drawee to accept.

225. Liability of drawee retaining or destroying bill.

226. Acceptance of incomplete bill.

227. Kinds of acceptances.

228. What constitutes a general acceptance.

229. Qualified acceptance.

230. Rights of parties as to qualified acceptance.

§ 220. *Acceptance; how made, et cetera.*—The acceptance of a bill is the significance by the drawee of his assent to the order of the drawer. The acceptance must be in writing and signed by the drawee. It must not express that the drawee will perform his promise by any other means than the payment of money.

§ 221. *Holder entitled to acceptance on face of bill.*—The holder of a bill presenting the same for acceptance may require that the acceptance be written on the bill, and if such request is refused, may treat the bill as dishonored.

§ 222. *Acceptance by separate instrument.*—Where an acceptance is written on a paper other than the bill itself, it does not bind the acceptor, except in favor of a person to whom it was shown and who, on the faith thereof, receives the bill for value.

§ 223. *Promise to accept; when equivalent to acceptance.*—An unconditional promise in writing to accept a bill before it is drawn is deemed an actual acceptance in favor of every person who, upon the faith thereof, receives the bill for value.

§ 224. *Time allowed drawee to accept.*—The drawee is allowed twenty-four hours after presentment in which to decide whether or not he will accept the bill; but the acceptance if given dates as of the day of presentment.

§ 225. *Liability of drawee retaining or destroying bill.*—Where a drawee to whom a bill is delivered for acceptance destroys the same, or refuses within twenty-four hours after such delivery, or within such other period as the holder may allow, to return the bill accepted or non-accepted to the holder, he will be deemed to have accepted the same.

§ 226. *Acceptance of incomplete bill.*—A bill may be accepted before it has been signed by the drawer, or while otherwise incomplete, or when it is overdue, or after it has been dishonored by a previous refusal to accept, or by non-payment. But when a bill payable after sight is dishonored by non-acceptance and the drawee subsequently accepts it, the holder, in the absence of any different agreement, is entitled to have the bill accepted as of the date of the first presentment.

§ 227. *Kinds of acceptances.*—An acceptance is either general or qualified. A general acceptance assents without qualification to the order of the drawer. A qualified acceptance in express terms varies the effect of the bill as drawn.

§ 228. *What constitutes a general acceptance.*—An acceptance to pay at a particular place is a general acceptance unless it expressly states that the bill is to be paid there only and not elsewhere.

§ 229. *Qualified acceptance.*—An acceptance is qualified which is:

1. Conditional, that is to say, which makes payment by the acceptor dependent on the fulfilment of a condition therein stated;
2. Partial, that is to say, an acceptance to pay part only of the amount for which the bill is drawn;
3. Local, that is to say, an acceptance to pay only at a particular place;
4. Qualified as to time;
5. The acceptance of some one or more of the drawees, but not of all;

§ 230. *Rights of parties as to qualified acceptance.*—The holder may refuse to take a qualified acceptance, and if he does not obtain an unqualified acceptance, he may treat the bill as dishonored by non-acceptance. Where a qualified acceptance is taken, the drawer and indorsers are discharged from liability on the bill, unless they have expressly or impliedly authorized the holder to take a qualified acceptance, or subsequently assent thereto. When the drawer or an indorser receives notice of a qualified acceptance, he must within a reasonable time express his dissent to the holder, or he will be deemed to have assented thereto.

ARTICLE XII.

PRESENTMENT OF BILLS OF EXCHANGE FOR ACCEPTANCE.

- Section 240. When presentment for acceptance must be made.
241. When failure to present releases drawer and indorser.
242. Presentment; how made.
243. On what days presentment may be made.
244. Presentment; where time is insufficient.
245. When presentment is excused.
246. When dishonored by non-acceptance.
247. Duty of holder where bill not accepted.
248. Rights of holder where bill not accepted.

§ 240. *When presentment for acceptance must be made.*—Presentment for acceptance must be made:

1. Where the bill is payable after sight or in any other case where presentment for acceptance is necessary in order to fix the maturity of the instrument; or

2. Where the bill expressly stipulates that it shall be presented for acceptance; or

3. Where the bill is drawn payable elsewhere than at the residence or place of business of the drawee.

In no other case is presentment for acceptance necessary in order to render any party to the bill liable.

§ 241. *When failure to present releases drawer and indorser.*—Except as herein otherwise provided, the holder of a bill which is required by the next preceding section to be presented for acceptance must either present it for acceptance or negotiate it within a reasonable time. If he fails to do so, the drawer and all indorsers are discharged.

§ 242. *Presentment; how made.*—Presentment for acceptance must be made by or on behalf of the holder at a reasonable hour, on a business day, and before the bill is overdue, to the drawee or some person authorized to accept or refuse acceptance on his behalf; and

1. Where a bill is addressed to two or more drawees who are not partners, presentment must be made to them all, unless one has authority to accept or refuse acceptance for all, in which case presentment may be made to him only;

2. Where the drawee is dead, presentment may be made to his personal representative;

3. Where the drawee has been adjudged a bankrupt or an insolvent, or has made an assignment for the benefit of creditors, presentment may be made to him or to his trustee or assignee.

§ 243. *On what days presentment may be made.*

—A bill may be presented for acceptance on any day on which negotiable instruments may be presented for payment under the provisions of sections one hundred and thirty-two and one hundred and forty-five of this act. When Saturday is not otherwise a holiday, presentment for acceptance may be made before twelve o'clock noon on that day.

§ 244. *Presentment when time is insufficient.*—

Where the holder of a bill drawn payable elsewhere than at the place of business or the residence of the drawee has not time with the exercise of reasonable diligence to present the bill for acceptance before presenting it for payment on the day that it falls due, the delay caused by presenting the bill for acceptance before presenting it for payment is excused and does not discharge the drawers and indorsers.

§ 245. *Where presentment is excused.*—Presentment for acceptance is excused and a bill may be treated as dishonored by non-acceptance in either of the following cases:

1. Where the drawee is dead or has absconded, or is a fictitious person or a person not having capacity to contract by bill;

2. Where, after the exercise of reasonable diligence, presentment cannot be made;

3. Where, although presentment has been irregular, acceptance has been refused on some other ground.

§ 246. *When discharged by non-acceptance.*—A bill is dishonored by non-acceptance:

1. When it is duly presented for acceptance, and such an acceptance as is prescribed by this act is refused or cannot be obtained; or

2. When presentment for acceptance is excused and the bill is not accepted.

§ 247. *Duty of holder where bill not accepted.*—Where a bill is duly presented for acceptance and is not accepted within the prescribed time, the person presenting it must treat the bill as dishonored by non-acceptance or he loses the right of recourse against the drawer and indorsers.

§ 248. *Rights of holder where bill not accepted.*—When a bill is dishonored by non-acceptance, an immediate right of recourse against the drawers and indorsers accrues to the holder, and no presentment for payment is necessary.



## ARTICLE XIII.

## PROTEST OF BILLS OF EXCHANGE.

- Section 260. In what cases protest necessary.  
 261. Protest; how made.  
 262. Protest; by whom made.  
 263. Protest; when to be made.  
 264. Protest; where made.  
 265. Protest both for non-acceptance and non-payment.  
 266. Protest before maturity where acceptor insolvent.  
 267. When protest dispensed with.  
 268. Protest; where bill is lost, et cetera.

§ 260. *In what cases protest necessary.*—Where a foreign bill appearing on its face to be such is dishonored by non-acceptance, it must be duly protested for non-acceptance, and where such a bill which has not previously been dishonored by non-acceptance is dishonored by non-payment, it must be duly protested for non-payment. If it is not so protested, the drawer and indorsers are discharged. Where a bill does not appear on its face to be a foreign bill, protest thereof in case of dishonor is unnecessary.

§ 261. *Protest; how made.*—The protest must be annexed to the bill, or must contain a copy thereof, and must be under the hand and seal of the notary making it, and must specify:

1. The time and place of presentment;
2. The fact that presentment was made and the manner thereof;
3. The cause or reason for protesting the bill;
4. The demand made and the answer given, if any, or the fact that the drawee or acceptor could not be found.

§ 262. *Protest; by whom made.*—Protest may be made by:

1. A notary public; or
2. By any respectable resident of the place where the bill is dishonored, in the presence of two or more creditable witnesses.

§ 263. *Protest; when to be made.*—When a bill is protested, such protest must be made on the day of its dishonor, unless delay is excused as herein provided. When a bill has been duly noted, the protest may be subsequently extended as of the date of the noting.

§ 264. *Protest; where made.*—A bill must be protested at the place where it is dishonored, except that when a bill drawn payable at the place of business or residence of some person other than the drawee, has been dishonored by non-acceptance, it must be protested for non-payment at the place where it is expressed to be payable, and no further presentment for payment to, or demand on, the drawee is necessary.

§ 265. *Protest both for non-acceptance and non-payment.*—A bill which has been protested for non-acceptance may be subsequently protested for non-payment.

§ 266. *Protest before maturity where acceptor insolvent.*—Where the acceptor has been adjudged a bankrupt or an insolvent, or has made an assignment for the benefit of creditors, before the bill matures, the holder may cause the bill to be protested for better security against the drawer and indorsers.

§ 267. *When protest dispensed with.*—Protest is dispensed with by any circumstances which would dispense with notice of dishonor. Delay in noting or protesting is excused when delay is caused by circumstances beyond the control of the holder and not imputable to his default, misconduct, or negligence. When the cause of delay ceases to operate, the bill must be noted or protested with reasonable diligence.

§ 268. *Protest where bill is lost, et cetera.*—Where a bill is lost or destroyed, or is wrongly detained from the person entitled to hold it, protest may be made on a copy or written particulars thereof.

## ARTICLE XIV.

## ACCEPTANCE OF BILLS OF EXCHANGE FOR HONOR.

- Section 280. When bill may be accepted for honor.  
 281. Acceptance for honor; how made.

- Section 282. When deemed to be an acceptance for honor of the drawer.  
 283. Liability of acceptor for honor.  
 284. Agreement of acceptor for honor.  
 285. Maturity of bill payable after sight; accepted for honor.  
 286. Protest of bill accepted for honor, et cetera.  
 287. Presentment for payment to acceptor for honor; how made.  
 288. When delay in making presentment is excused.  
 289. Dishonor of bill by acceptor for honor.

§ 280. *When bill may be accepted for honor.*—Where a bill of exchange has been protested for dishonor by non-acceptance or protested for better security and is not overdue, any person not being a party already liable thereon may, with the consent of the holder, intervene and accept the bill supra protest for the honor of any party liable thereon or for the honor of the person for whose account the bill is drawn. The acceptance for honor may be for part only of the sum for which the bill is drawn; and where there has been an acceptance for honor for one party, there may be further acceptance by a different person for the honor of another party.

§ 281. *Acceptance for honor; how made.*—An acceptance for honor supra protest must be in writing and indicate that it is an acceptance for honor, and must be signed by the acceptor for honor.

§ 282. *When deemed to be an acceptance for honor of the drawer.*—Where an acceptance for honor does not expressly state for whose honor it is made, it is deemed to be an acceptance for the honor of the drawer.

§ 283. *Liability of acceptor for honor.*—The acceptor for honor is liable to the holder and to all parties to the bill subsequent to the party for whose honor he has accepted.

§ 284. *Agreement of acceptor for honor.*—The acceptor for honor by such acceptance engages that he will on due presentment pay the bill according to the terms of his acceptance, provided it shall not have been paid by the drawee, and provided also that it shall have been duly presented for payment and protested for non-payment and notice of dishonor given to him.

§ 285. *Maturity of bill payable after sight; accepted for honor.*—Where a bill payable after sight is accepted for honor, its maturity is calculated from the date of the noting for non-acceptance and not from the date of the acceptance for honor.

§ 286. *Protest of bill accepted for honor, et cetera.*—Where a dishonored bill has been accepted for honor supra protest or contains a reference in case of need, it must be protested for non-payment before it is presented for payment to the acceptor for honor or referee in case of need.

§ 287. *Presentment for payment to acceptor for honor; how made.*—Presentment for payment to the acceptor for honor must be made as follows:

1. If it is to be presented in the place where the protest for non-payment was made, it must be presented not later than the day following its maturity;

2. If it is to be presented some other place than the place where it was protested, then it must be forwarded within the time specified in section one hundred and seventy-five.

§ 288. *When delay in making presentment is excused.*—The provisions of section one hundred and forty-one apply where there is delay in making presentment to the acceptor for honor or referee in case of need.

§ 289. *Dishonor of bill by acceptor for honor.*—When the bill is dishonored by the acceptor for honor it must be protested for non-payment by him.

## ARTICLE XV.

## PAYMENT OF BILLS OF EXCHANGE FOR HONOR.

- Section 300. Who may make payment for honor.  
 301. Payment for honor; how made.  
 302. Declaration before payment for honor.

- Section 303. Preference of parties offering to pay for honor.
- 304. Effect on subsequent parties where bill is paid for honor.
- 305. Where holder refuses to receive payment supra protest.
- 306. Rights of payer for honor.

§ 300. *Who may make payment for honor.*—Where a bill has been protested for non-payment, any person may intervene and pay its supra protest for the honor of any person liable thereon or for the honor of the person for whose account it was drawn.

§ 301. *Payment for honor; how made.*—The payment for honor supra protest in order to operate as such and not as a mere voluntary payment must be attested by a notarial act of honor, which may be appended to the protest or form an extension to it.

§ 302. *Declaration before payment for honor.*—The notarial act of honor must be founded on a declaration made by the payer for honor, or by his agent in that behalf declaring his intention to pay the bill for honor and for whose honor he pays.

§ 303. *Preference of parties offering to pay for honor.*—Where two or more persons offer to pay a bill for the honor of different parties, the person whose payment will discharge most parties to the bill is to be given the preference.

§ 304. *Effect on subsequent parties where bill is paid for honor.*—Where a bill has been paid for honor all parties subsequent to the party for whose honor it is paid are discharged, but the payer for honor is subrogated for, and succeeds to, both the rights and duties of the holder as regards the party for whose honor he pays and all parties liable to the latter.

§ 305. *Where holder refuses to receive payment supra protest.*—Where the holder of a bill refuses to receive payment supra protest, he loses his right of recourse against any party who would have been discharged by such payment.

§ 306. *Rights of payer for honor.*—The payer for honor, on paying to the holder the amount of the bill and the notarial expenses incidental to its dishonor, is entitled to receive both the bill itself and the protest.

ARTICLE XVI.

BILLS IN A SET.

- Section 310. Bills in sets constitute one bill.
- 311. Rights of holders where different parts are negotiated.
- 312. Liability of holder who indorses two or more parts of a set to different persons.
- 313. Acceptance of bills drawn in sets.
- 314. Payment by acceptor of bills drawn in sets.
- 315. Effect of discharging one of a set.

§ 310. *Bills in sets constitute one bill.*—Where a bill is drawn in a set, each part of the set being numbered and containing a reference to the other parts the whole of the parts constitute one bill.

§ 311. *Rights of holders where different parts are negotiated.*—Where two or more parts of a set are negotiated to different holders in due course, the holder whose title first accrues is as between such holders the true owner of the bill. But nothing in this section affects the rights of a person who in due course accepts or pays the part first presented to him.

§ 312. *Liability of holder who indorses two or more parts of a set to different persons.*—Where the holder of a note indorses two or more parts to different persons he is liable on every such part, and every indorser subsequent to him is liable on the part he has himself indorsed, as if such parts were separate bills.

§ 313. *Acceptance of bills drawn in sets.*—The acceptance may be written on any part, and it must be written on one part only. If the drawee accepts more than one part, and such accepted parts are negotiated to different holders in due course, he is liable on every such part as if it were a separate bill.

§ 314. *Payment by acceptor of bills drawn in sets.*—When the acceptor of a bill drawn in a set

pays it without requiring the part bearing his acceptance to be delivered up to him, and that part at maturity is outstanding in the hands of a holder in due course, he is liable to the holder thereon.

§ 315. *Effect of discharging one of a set.*—Except as herein otherwise provided, where any one part of a bill drawn in a set is discharged by payment or otherwise the whole bill is discharged.

ARTICLE XVII.

PROMISSORY NOTES AND CHECKS.

- Section 320. Promissory note defined.
- 321. Check defined.
- 322. Within what time a check must be presented.
- 323. Certification of check; effect of.
- 324. Effect where holder of check procures it to be certified.
- 325. When check operates as an assignment.

§ 320. *Promissory note defined.*—A negotiable promissory note within the meaning of this act is an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand or at a fixed or determinable future time a sum certain in money to order or to bearer. Where a note is drawn to the maker's own order, it is not complete until indorsed by him.

§ 321. *Check defined.*—A check is a bill of exchange drawn on a bank, payable on demand. Except as herein otherwise provided, the provisions of this act applicable to a bill of exchange payable on demand apply to a check.

§ 322. *Within what time a check must be presented.*—A check must be presented for payment within a reasonable time after its issue or the drawer will be discharged from liability thereon to the extent of the loss caused by the delay.

§ 323. *Certification of check; effect of.*—Where a check is certified by the bank on which it is drawn the certification is equivalent to an acceptance.

§ 324. *Effect where the holder of check procures it to be certified.*—Where the holder of a check procures it to be accepted or certified the drawer and all indorsers are discharged from liability thereon.

§ 325. *When check operates as an assignment.*—A check of itself does not operate as an assignment of any part of the funds to the credit of the drawer with the bank, and the bank is not liable to the holder, unless and until it accepts or certifies the check.

§ 326. *Recovery of forged check.*—No bank shall be liable to a depositor for the payment by it of a forged or raised check, unless within one year after the return to the depositor of the voucher of such payment, such depositor shall notify the bank that the check so paid was forged or raised.

ARTICLE XVIII.\*

NOTES GIVEN FOR A PATENT RIGHTS AND FOR A SPECULATIVE CONSIDERATION

- Section 330. Negotiable instruments given for patent rights.
- 331. Negotiable instruments given for a speculative consideration.
- 332. How negotiable bonds are made non-negotiable.

§ 330. *Negotiable instruments given for patent rights.*—A promissory note or other negotiable instrument, the consideration of which consists wholly or partly of the right to make, use or sell any invention claimed or represented by the vendor at the time of sale to be patented, must contain the words "given for a patent right" prominently and legibly written or printed on the face of such note or instrument in the hands of any purchaser or holder is subject to the same defenses as in the hands of the original holder; but this section does not apply to a negotiable instrument given solely for the purchase price or the use of a patented article.

§ 331. *Negotiable instruments for a speculative consideration.*—If the consideration of a promis-

\* This article appears only in the New York Act.



sory note or other negotiable instrument consists in whole or in part of the purchase price of any farm product, at a price greater by at least four times than the fair market value of the same product at the time, in the locality, or of the membership and rights in an association, company or combination to produce or sell any farm product at a fictitious rate, or of a contract or bond to purchase or sell any farm product at a price greater by four times than the market value of the same product at the time in the locality, the words, "given for a speculative consideration," or other words clearly showing the nature of the consideration, must be prominently and legibly written or printed on the face of such note or instrument above the signature thereof; and such note or instrument, in the hands of any purchaser or holder, is subject to the same defenses as in the hands of the original owner or holder.

§ 332. *How negotiable bonds are made non-negotiable.*—The owner or holder of any corporate or municipal bond or obligation (except such as are designated to circulate as money, payable to bearer), heretofore or hereafter issued in and payable in this State, but not registered in pursuance of any State law, may make such bond or obligation, or the interest coupon accompanying the same, non-negotiable, by subscribing his name to a statement endorsed thereon that such bond, obligation or coupon is his property; and thereon the principal sum therein mentioned is payable only to such owner or holder or his legal representatives or assigns, unless such bond, obligation or coupon be transferred by indorsement in blank, or payable to bearer, or to order, with the addition of the assignor's place of residence.

### Negotiable Paper

A term usually used to denote those negotiable instruments which evidence the borrowing of money on a short-term basis for commercial purposes, *e. g.*, notes, trade and bankers' acceptances, bills of exchange, etc. (See Negotiable Instruments.)

### Negotiable Securities

First read *Negotiable Instruments*.

From this explanation it will be clear that all coupon or bearer bonds (whether issued by a Government, state, municipality, railroad, public utility or industrial corporation), certificates of indebtedness, notes, warrants, coupons, and stock certificates, which by their terms permit of transfer of title by delivery or assignment, are negotiable securities.

### Negotiate

To transfer the title of a negotiable instrument from one person to another so that the transferee becomes the legal holder and is vested with all the rights of the original owner. Negotiation implies a sale or passing of value. In a collateral sense therefore, since negotiating a note involves relinquishment of its title by the transferor, the term means to sell or discount, *i. e.*, to borrow money.

### Negotiation

See Negotiable Instruments, Negotiate.

### Net

The balance after all possible deductions, offsets and allowances have been made from the gross amount, bringing it to its lowest terms, *e. g.*, net weight, net price, net wealth, net assets, net debt, and net profits. Some of these terms are explained below.

### Net Avails

The proceeds of a discounted note; the sum of money given to the borrower in discounting a note, being equivalent to the face of the note less the discount. It is also known as *Proceeds*.

### Net Bonded Debt

The aggregate of bonds issued less those repurchased by the corporation and held in the treasury, or those retired and cancelled, and less sinking fund assets, if any, set aside to redeem them.

### Net Change

The advance or decline of a security for a day or other period. The net change in stocks is shown in the financial pages of the daily newspapers and is determined by taking the difference between the closing quotations for two consecutive days.

### Net Debt

As applied to a corporation, the total fixed and current debt (liabilities), less sinking fund and cash or other assets specifically set aside for their payment. As applied to municipal or state finance, the term refers to the total funded and floating debt outstanding, less sinking fund accruals.

### Net Demand Deposits

A term distinguished from *Gross Deposits* (*q. v.*), being the basis upon which the legal reserve of banks is computed. For a National bank, net demand deposits consist of all deposits subject to check (except Government deposits), plus certified and cashiers' checks outstanding, less balance due from other banks (except Federal Reserve banks), exchanges for clearing house, other checks drawn on local banks, and items with Federal Reserve banks in process of collection. (See Deposits, Net Deposits.)

### Net Earnings

A term usually confined to railroad and public utility corporation accounting terminology, being analogous to net profits in the

profit and loss statement of industrial and mercantile corporations. Net earnings denote that portion of the revenue determined by subtracting all operating costs and fixed charges, including interests, rentals, sinking fund payments, etc., from gross revenue. It is therefore the amount available for dividends and surplus. (See Net Profits.)

### Net Income

Although accounting terminology is not uniform, this term is usually confined to the operating statements of railroads and public utilities and is analogous to net operating profit in the operating statement of industrial and mercantile corporations. For railroad and public utility corporations, net income denotes that portion of income determined after subtracting all operating costs from gross revenue, and is the amount applicable to fixed charges, rentals, sinking fund payments, dividends, and additions to surplus.

### Net Indebtedness

See Net Debt.

### Net Price

The price of a commodity or security after deducting all discounts, commissions, allowances, accruals, rebates, etc.

### Net Profits

Although accounting terminology is not uniform, this term is practically synonymous with net earnings, the former being used of industrial and commercial corporations, the latter of railroad and public utilities. Net profits for a given accounting period are derived by deducting from gross sales the sum of the cost of materials or merchandise sold, and selling and general administrative expenses, including insurance, taxes, interest and depreciation. In other words, net profits is the sum applicable to dividends and surplus. Among some companies, if special deductions are to be made, *e. g.*, sinking fund instalments, special reserves, the term net earnings is reserved for the amount applicable to dividends and surplus, net profits indicating the amount derived from operations before sinking fund instalments and other deductions are made.

### Net Profits to Net Worth Ratio

See Ratio of Net Profits to Net Worth.

### Net Return

See Return.

### Net Surplus

The proportion of *Net Profits* (q. v.), or *Net Earnings* (q. v.), available for the surplus account remaining after dividends have been paid. Net surplus is, therefore, the current profit for a given accounting period in excess of dividend requirements and is the amount carried to the surplus account, which represents the gross or already accumulated surplus.

### Net Worth

From an accounting standpoint, the excess of assets over liabilities; and, in the case of a corporation, represented by the capital stock, surplus and other true reserve accounts, if any. Among partnerships, it is represented by the sum of the partners' capital accounts, and in the case of an individual, by the capital account.

From a legal standpoint, net worth represents the equity of the owners in the business, *i. e.*, the net assets determined by subtracting all liabilities from the going value of the assets.

From the standpoint of the credit analyst engaged in judging credit risks, the net worth of a corporation is the sum of the capital stock and surplus, less good will, patents, and other intangible assets, if any. Only actual tangible assets are included in the determination of net worth of a company applying for credit. It is commonly agreed among bank credit men that unsecured loans should not be extended to exceed one-third of a company's net worth.

### Net Worth to Fixed Assets Ratio

See Ratio of Net Worth to Fixed Assets.

### Net Worth to Sales Ratio

See Ratio of Net Worth to Sales.

### Net Yield

See Yield.

### New Business Department

A department organized in the larger banks which corresponds to the sales promotion department among manufacturing and mercantile concerns. It is also known as the business extension or business development department, and may control or be associated with the advertising or publicity department. This group of departments constitutes a practically new role in modern banking and has arisen out of the increasing competition for new business, and the campaign to edu-



cate the public to a greater use of banking facilities. The chief objectives of the new business department are to secure more accounts, to maintain satisfactory relations with old accounts, and to build up small and dormant accounts.

The work of the department is usually in charge of a senior official, since business development is one of the most insistent problems of bank management. This work may be divided under three heads, correspondence, solicitation, and records. Correspondence is conducted with the list of prospects, and some of the large banks maintain a regular staff of solicitors to find new sources of business.

The chief record of the department is usually the *Central File* (q. v.). This file should contain a card for each customer and prospect, and show the principal items of information which may be necessary to a continuous following-up of the accounts.

The department works in close co-operation with the credit department, the latter oftentimes furnishing 'leads' and checking prospective accounts. Names of prospects are obtained from solicitors, applicants for particular kinds of services, applicants for information, officers, employees, reports of new incorporations, removal notices, newspaper clippings, etc. (See Publicity Department.)

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### New High

Financial reviewers in commenting upon the trend of the stock market sometimes state that the market as a whole or a particular security, or group of securities, has reached a "new high" for the movement. The expression may also refer to the record or highest price which a particular security has ever reached in its market history.

### New Orleans Cotton Exchange

The second largest cotton exchange in the United States, incorporated January 17, 1871. The operating machinery and the trading methods on this exchange are patterned after those of the *New York Cotton Exchange* (q. v.).

### New Orleans Future Sugar Market

A second American sugar exchange established in New Orleans on July 6, 1922, under the direction of the New Orleans Sugar Clearing Association, through which all transactions are cleared daily.

Three types of contracts are traded in: (1) granulated contract, on which standard fine granulated, bone black, beet, and Louisiana standard granulated sugars are delivered; (2) foreign contract under which only Cuban and those sugars produced in certain foreign countries are deliverable; and (3) New Orleans contract, under which sugar produced in every part of the world is deliverable. (See New York Coffee and Sugar Exchange.)

### New York Coffee and Sugar Exchange

The principal coffee exchange of the world, its title formerly being *The Coffee Exchange of the City of New York*. It was incorporated in 1887, and is located in Hanover Square near the Cotton Exchange.

The organization, membership, and government of the coffee exchange follows along the same lines as the other important exchanges. As in the case of the cotton and other produce exchanges, one of its most important duties is the classification and grading of the commodities traded in. Coffee is graded according to its quality and source of production. As to the latter there are four principal classifications—La Guaira, Rio, Santos, Mocha. The grades are as follows: First, Good first, Regular first, Extraordinary first; Second, etc., the grading depending upon the size, color and cleanliness of the bean.

The unit of trading is 250 bags, which weigh approximately 132 pounds each—33,000 pounds. Quotations are made in cents and hundreds thereof per pound, the minimum fluctuation being one point or 1-100 of a cent, or \$3.25 on the standard unit of trade.

No definite margins are required by coffee brokers, the amount being subject to agreement. A person who trades in coffee is required to put up a certificate of deposit with the management of the exchange.

Raw and refined sugar is traded in on spot and future contracts. Quotations for both raw and refined sugars are made in cents and hundredths thereof per pound, the minimum fluctuation being one point or 1-100 of a cent. The unit of trade for raw sugar is 50 tons (112,000 pounds); for refined sugar, 800 bags (80,000 pounds.)

## New York Consolidated Stock Exchange

A secondary stock market with the official title of *Consolidated Stock Exchange of New York*. This exchange is in reality an outgrowth of the original New York Mining Stock Exchange which soon after its organization absorbed the American Mining and Stock Exchange. In 1886 it absorbed three other exchanges, the National Petroleum Exchange, the Miscellaneous Security Board, and the New York Petroleum Exchange and Stock Board. The Consolidated Exchange was at first a market for mining shares but has long since dropped that specialized function, and now deals in practically the same list of securities as the New York Stock Exchange. The unit of trade, however, is ten shares instead of 100 shares. The Consolidated has had several locations, its present one being at the corner of Broad and Beaver Streets.

The government of the exchange is similar to that of the New York Stock Exchange. There are twelve standing committees, among them being, Ways and Means, Membership, Complaint and Arbitration, Clearing House, News and Statistics, Securities, Arrangements, Law, Finance, etc.

The Exchange claims to be the third largest in the country, ranking next to the New York Curb. Inasmuch as the unit of trade is ten shares, brokers can execute orders for ten share lots without the extra eighth or quarter point which would be charged by a New York Stock Exchange broker, who executes such orders through an odd lot broker.

The activity of this market has increased in recent years with the growing interest of men with smaller capital in stock trading. The ruling price of seats in the last four years has been about \$3,500.

The following is a schedule of brokers' commissions on the Consolidated Exchange:

Stocks selling under \$10, \$7.50 per 100 shares.

Stocks selling at \$10 and under \$125, \$15.00 per 100 shares.

Stocks selling at \$125 and over, \$20.00 per 100 shares.

Commissions for odd lot transactions are pro rata, except that the minimum commission on any one trade is \$1.00.

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## New York Cotton Exchange

The most important cotton exchange in the world, founded in 1870, and incorporated on April 8, 1871, by an act of the New York legislature. Ranking next in importance are the New Orleans Cotton Exchange and the Liverpool Cotton Association, the latter being the chief distributing point for American cotton exports.

The governing body of the New York Cotton Exchange is the Board of Managers, and like other exchanges, membership is limited—in this case to 450. The cotton exchange has the distinction of having its memberships command higher prices than any other exchange in this country except the New York Stock Exchange.

The objects of the exchange are set forth in the preamble of its constitution, as follows:

"WHEREAS, the cotton trade of New York is increasing very rapidly, and with the increasing facilities for shipping cotton by steam to all parts of Europe, this trade must continue to increase, making New York, ere long, one of the largest cotton ports of the world, and

WHEREAS, In addition to the cotton sent here for sale, there has grown up a large trade in the purchase and sale of cotton for future delivery, in which much business is done on foreign account, as well as for planters and country dealers in the South, and

WHEREAS, We believe that the telegraphic wires all over the world will rapidly increase these transactions, and

WHEREAS, It is essential with this increase in the cotton trade of New York, that proper rules and regulations should be adopted for systematizing the whole business, and believing that this can be best done under an organization of all the trade, it is determined by those of us present, and such others as will unite with us, to organize an association."

Cotton is quoted for "spot" and "future" contracts, 100 bales (of 500 pounds each) being the standard unit of trade. Quotations are made in cents per pound, fluctuations of 1/100 of a cent, known as a point, being recognized. For example, a decline of 50 points is equivalent to ½ cent per pound or \$2.50 per bale.

Since there are many grades of cotton, the price of one grade, *Miding Uplands*, is selected as the basis for prices of other grades which command a premium or are



subject to a discount equitably adjusted to a posted scale.

Settlements are effected in two ways, direct and ring. The exchange maintains a ticker service of its own. (See Cotton, Cotton Futures, Cotton Futures Act, Cotton Grades.)

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#### New York Curb Market

The second largest security market in the United States, which, until the opening up of the new building at 78 Trinity Place, on June 27, 1921, was an out-of-door market occupying a place on Broad Street between Exchange Place and Beaver Street. In 1910 the New York Curb Market Association was founded and an organization was built up similar in general outline to that of the other organized exchanges. It is governed by a Board of Representatives of fifteen members acting under a Constitution, and manual of trading rules. The membership is limited to 550 members. In addition to regular memberships, associate memberships are provided for New York Stock Exchange and New York Consolidated Exchange members, many of whom engage in curb market business along with their regular business.

The chief functions of the Curb Market are as follows:

"(a) To provide a primary market for introducing the securities of such industrial, metal, oil, public utilities or other corporations as are eligible for listing under the listing requirements of the Exchange.

(b) To furnish a temporary primary market for the preliminary issue of securities of well-known established companies which are being reorganized or are issuing additional stock, usually represented by 'rights.'

(c) To provide a market for speculative issues in the formative period of their corporate existence. Such issues, although they probably represent the most legitimate form of enterprise, are more or less speculative even under most favorable circumstances.

(d) To provide a market for such other stocks or bonds, which for various reasons are not listed on any other exchange."

No securities listed on the New York Stock Exchange are traded or quoted on the

New York Curb Market. In other words, the two exchanges are mutually exclusive, though securities originally traded in on the Curb frequently are later admitted to the New York Stock Exchange. Such securities are known as "graduate securities." There are approximately 1,000 issues traded in on the Curb.

The unit of trade is 100 shares for stocks selling at 50 cents or over and 1,000 shares for stocks selling under 50 cents. For bonds, the unit of trade is \$1,000 par value.

The schedule of commissions is as follows:

Stocks selling under \$.50, 20 per cent. of total amount involved.

Stocks selling at 50c and under \$1.00, \$2.00 per 100 shares.

Stocks selling at \$1.00 and under \$3.00, \$4.00 per 100 shares.

Stocks selling at \$3.00 and under \$5.00, \$5.50 per 100 shares.

Stocks selling at \$5.00 and under \$10.00, \$7.50 per 100 shares.

Stocks selling at \$10.00 and under \$125.00, \$15.00 per 100 shares.

Stocks selling at \$125.00 and above, \$20.00 per 100 shares.

Odd lots proportionately at the above rates. The minimum commission on any one trade is \$1. The Curb maintains a ticker service of its own.

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#### New York Dollars

Banks in this country having accounts with correspondents abroad may issue letters of credit against which the holder may draw drafts against such correspondents. Instructions are usually given to such correspondents to provide for reimbursement upon cashing such drafts when presented, by a charge against the American bank's account, or else by drawing against the American bank in New York dollars. By New York dollars is meant funds payable in New York, without deduction for interest or other charges, as distinguished from funds available at other points in America, or elsewhere, though payable in dollars.

#### New York Exchange

A check drawn upon a bank in New York, New York being the financial center, a check drawn upon New York is acceptable in all places, and ordinarily without discount.

### New York Funds

See New York Exchange.

### New York Metal Exchange

The principal metal market in the United States, located at 111 Broadway, where the following metals are traded in on "spot" and "future" contracts: aluminum, antimony, standard copper, electrolytic copper, tin, lead, zinc, etc.

The principal metal market is in London and New York quotations usually follow the lead of prices initiated in the London market.

### New York Plan

See Equipment Trust.

### New York Produce Exchange

One of the most important produce exchanges in the United States, having about 1,900 members. In addition to wheat, corn and oats, many other products are dealt in, including flour, hay, straw, cotton-seed oil, lard, provisions, seeds, butter, cheese, hops, petroleum and pig iron. The exchange is one of the leading instruments for furthering New York's commercial interests and has committees on exports, foreign trade, transportation, bills of lading, etc. The hours of trading are between 10:30 A. M. and 2:15 P. M. The exchange permits members to provide substitutes for dealing on the floor for limited periods.

Produce exchanges are also known as Boards of Trade, Chambers of Commerce and Trade Associations. Some of them specialize in one commodity; others in many. The principal produce exchanges in this country are: New York Cotton Exchange, New Orleans Cotton Exchange, New York Coffee and Sugar Exchange, Minneapolis Chamber of Commerce, St. Louis Merchants Exchange, Duluth Board of Trade, Kansas City Board of Trade, Winnipeg Grain Exchange, Omaha Grain Exchange, Milwaukee Chamber of Commerce, Toledo Produce Exchange, Buffalo Commercial Exchange, Philadelphia Commercial Exchange, and Baltimore Chamber of Commerce.

The most prominent exchanges of Europe are, the Liverpool Cotton Exchange, Liverpool Corn Trade Association, Manchester Cotton Exchange, London Corn Exchange, as well as the bourses of Hamburg, Paris, Berlin, Amsterdam, Antwerp, and Budapest.

For the operations of a Produce Exchange, see *Chicago Board of Trade, Futures*.

### New York Real Estate Board

The Real Estate Exchange of New York City, located at 217 Broadway, for the purpose of enabling its members to trade in real estate. The Board was established in February 1896, and incorporated April 2, 1898. Its objects are:

(1) The formation of an Association of those professionally engaged in the Real Estate Business, Land owners and persons interested in Real Estate and the welfare of the State and City and to make the Board the center of Real Estate interests in New York.

(2) To protect and promote the mutual interests of its members, and to facilitate negotiations in Real Estate.

(3) To promote and encourage the enactment of laws beneficial to and take united action upon legislative and municipal matters affecting Real Estate.

(4) To oppose and take necessary measures to prevent the enactment or enforcement of unjust or obnoxious legislation, and secure an efficient and economical administration of the affairs of the State and City.

(5) To secure an equitable and uniform system of taxation.

(6) To advocate necessary public improvements and oppose unnecessary, extravagant and wasteful expenditures of public funds.

The Board is managed by a Board of Governors acting under a constitution; by two elected committees, auditing and nominating, and nine standing committees as follows: admissions, appraisals, arbitration, ethics and commissions, house, legislation and taxation, records, stock listing, ways and means. There are also about twenty special committees. The board room is equipped with special consulting rooms, maps, records, ownerships, telephones and other essential features necessary to the modern administration of real estate. The Real Estate Board is concerned with municipal and state legislation affecting real estate, and in co-operating with other organizations in upholding the real estate interests of New York City.

### New York Stock Exchange

A voluntary, unincorporated association without capital, founded in 1817, and located at the corner of Broad and Wall Streets. It is the most important stock exchange in the United States, if not in the world, and according to the new constitution adopted in March 1902, has the following objects: "to furnish exchange rooms and other facilities for the convenient transaction of their busi-



ness by its members as brokers; to maintain high standards of commercial honor and integrity among its members; and to promote and inculcate just and equitable principles of trade and business."

Membership is limited to 1,100 members, who must after admission, pay for their "seats" and annual dues of \$100. There are about 200 out-of-town members. The 1,100 members represent about 400 firms, most of which have non-member partners. Many members maintain branch offices and "wire correspondents" scattered throughout the United States and Canada and a few have offices in London, Paris and Berlin. Memberships belong only to individuals and not to firms or corporations; banks are therefore automatically excluded. Large brokerage houses and investment bankers are usually partnerships and when one member of the house is a member of the stock exchange the firm is permitted to advertise itself as "Members of the New York Stock Exchange." Trading on the floor of the exchange, however, is confined to individual members exclusively. The privileges of membership consist of the right to trade on the floor of the exchange for one's own account without commission, or for the account of others with a commission, or by another member at members' rates. The estate of a deceased member participates in a death benefit.

A membership is secured by purchasing a seat from a retiring, deceased or expelled member, members being elected for life unless they resign or are expelled. Expulsion involves forfeiture of membership, but not the proceeds of sale of such membership. Whenever expulsion is caused by insolvency the proceeds of sale of the member's seat are applied to creditors' or members claims.

The exchange is governed by a President, Vice-President, Treasurer, Secretary, Chairman and Assistant Chairman acting under a constitution of 38 articles, by-laws and rules. The Governing Committee consists of the president and treasurer, and forty members elected for four year periods, ten of whom are retired annually. There are thirteen standing committees, each of which has supreme and final authority on all matters within its jurisdiction, as follows: Arrangements, Admissions, Arbitration, Business Conduct, Clearing House, Commissions, Constitution, Finance, Insolvencies, Law, Securities, Quotations, and Stock List.

Securities are listed on the exchange by application to the stock list committee, the decisions of which are subject to review by the board of governors. The exchange is

as exclusive in admitting securities as it is in admitting members. The tests and qualifications for admission are treated under *Listed Securities* (q. v.). Corporations whose securities are required to furnish stockholders with complete annual statements of condition and of profit and loss.

The financial importance of the stock exchange may be shown by the number and par value of stocks and bonds listed and the volume of sales. On November 28, 1921, 770 different stocks and 1,084 bond issues were listed. It is estimated that in 1920 the total par value of the listed stocks was \$16,644,483,503, and the par value of bonds, \$18,816,686,722, making a total for stocks and bonds of \$35,461,170,225. The volume of sales for the past ten years is shown in the following table:

Year	Number of Shares	Bonds (Par Value)
1912.....	131,128,415	\$675,213,500
1913.....	83,470,693	501,571,020
1914.....	47,900,568	461,522,600
1915.....	173,145,203	961,094,700
1916.....	233,311,993	1,149,851,950
1917.....	185,628,948	1,057,190,200
1918.....	144,118,469	2,062,827,500
1919.....	316,787,725	3,808,806,150
1920.....	226,640,400	3,976,107,150
1921.....	150,839,000	3,517,670,000
1922.....	260,752,000	4,098,697,000

The hours for trading are from 10 A. M. to 3 P. M., except on Saturday, when the exchange closes at noon. The floor is open at 9:30 A. M. in order to give members time to arrange for borrowing money and for borrowing and lending stocks. Settlements of active stocks and bonds are made through the *New York Stock Exchange Clearing House* (q. v.), daily except Saturday.

The schedule of commission charges on the New York stock exchange are as follows:

#### STOCKS

Having a market value under \$10, \$7.50 per 100 shares.

Having a market value between \$10 and \$125, \$15.00 per 100 shares.

Having a market value of \$125 or over, \$20.00 per 100 shares.

#### BONDS

On each bond of \$1,000 par value, \$1.50. (See Broker, Listed Securities, Room Trader, Seat, Specialists, Tickers.)

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### New York Stock Exchange Abbreviations

The following abbreviations are used in transactions by New York Stock Exchange houses, and by the New York Quotation Company for ticker quotations, in indicating stocks listed on the New York Stock Exchange. For explanation of their use on the ticker, see below:

<b>A</b>	Atchison, Topeka & Santa Fe Ry.	<b>AFU</b>	Atlantic Fruit Co. (The)
<b>AAC</b>	All America Cables, Inc.	<b>AG</b>	Atlantic, Gulf & W. Indies S.S. Line
<b>AB</b>	N. Y. Air Brake Co.	<b>AGR</b>	American Agricultural Chemical Co.
<b>ABK</b>	American Brake Shoe & Foundry Co.	<b>AGS</b>	Alabama Great Southern
<b>ABL</b>	Atlanta, Birmingham & Atlan. Ry. Co.	<b>AH</b>	Allis Chalmers Mfg. Co.
<b>ABM</b>	Atlanta and Birmingham	<b>AIC</b>	American International Corp.
<b>ABN</b>	American Bank Note Co.	<b>AJS</b>	Atchison, T. & S. Fe adjustment
<b>ABS</b>	American Beet Sugar Co.	<b>AJU</b>	Anton Jurgens Un. Margarine Works
<b>AC</b>	American Telegraph & Cable Co.	<b>AK</b>	Alaska Gold Mines Co.
<b>ACC</b>	American Cities Co.	<b>AKN</b>	Atlanta, Knoxville & Cin.
<b>ACD</b>	Allied Chemical & Dye Corp.	<b>AKO</b>	Atlas Tack Corp.
<b>ACL</b>	American Coal Co. of Allegany	<b>AL</b>	American Linseed Co.
<b>ACS</b>	American Ship & Commerce Corp.	<b>ALB</b>	Province of Alberta, Dom. of Canada
<b>ADG</b>	Amalgamated Sugar Co.	<b>ALK</b>	Mathieson Alkali Works
<b>ADK</b>	American Dock & Imp. Co.	<b>ALO</b>	American Locomotive Co.
<b>ADN</b>	Air Reduction Co.	<b>ALT</b>	Chicago & Alton Ry.
<b>ADO</b>	Associated Oil Co.	<b>ALY</b>	United Alloy Steel Corp.
<b>ADS</b>	American Druggist Syndicate	<b>AM</b>	American Express
<b>AE</b>	Adams Express	<b>AMM</b>	American Metal Co., Ltd.
<b>AEO</b>	Atchison, T. & Santa Fe E. Oklo. Div.	<b>AMR</b>	Armour & Co. Real Estate Bonds
<b>AF</b>	American Car & Foundry Co.	<b>AMS</b>	American Sumatra Tobacco Co.
<b>AFG</b>	American La France Fire Engine Co.	<b>AN</b>	Ann Arbor R. R. Co.
<b>AFI</b>	Atlantic Refining Co.	<b>ANO</b>	Austin, Nichols & Co., Inc.
		<b>ANR</b>	Alliance Realty Co. (The)
		<b>AO</b>	American Cotton Oil Co.
		<b>APW</b>	Atlas Powder Co.
		<b>AR</b>	American Smelting & Refining Co.
		<b>ARG</b>	Argentine Republic
		<b>ARO</b>	American Radiator Co.
		<b>ARR</b>	American Rolling Mill Co.
		<b>ART</b>	Art Metal Construction Co.
		<b>ARZ</b>	American Safety Razor Corp.
		<b>AS</b>	Albany & Susquehanna R. R.
		<b>ASL</b>	Atchison Transcontinental Short Line
		<b>ASN</b>	Assets Realization Co.
		<b>ASP</b>	General Asphalt Co.
		<b>ASU</b>	American Shipbuilding Co.
		<b>AT</b>	American Tobacco Co.
		<b>ATB</b>	American Tobacco Co. Com. "B"
		<b>ATT</b>	American Telephone & Telegraph Co.
		<b>AU</b>	Auto Sales Corp.
		<b>AV</b>	Allegheny Valley R. R.
		<b>AW</b>	American Writing Paper Co.
		<b>AWH</b>	American Wholesale Corp.
		<b>AWW</b>	American Water Works & Electric Co.
		<b>AX</b>	Atlantic Coast Line R. R.
		<b>AY</b>	Allegheny & Western Ry.
		<b>AZ</b>	American Zinc, Lead & Smelting
<b>B</b>	Baldwin Locomotive Co.	<b>B</b>	Baldwin Locomotive Co.
<b>BB</b>	Burns Bros.	<b>BB</b>	Burns Bros.
<b>BC</b>	Butte Copper & Zinc Co.	<b>BC</b>	Butte Copper & Zinc Co.
<b>BCH</b>	Beech Creek R. R.	<b>BCH</b>	Beech Creek R. R.
<b>BCK</b>	Butterick Company	<b>BCK</b>	Butterick Company
<b>BD</b>	Braden Copper Mines Co.	<b>BD</b>	Braden Copper Mines Co.
<b>BDI</b>	Barnsdall Corp.	<b>BDI</b>	Barnsdall Corp.
<b>BDX</b>	City of Bordeaux (France)	<b>BDX</b>	City of Bordeaux (France)
<b>BE</b>	Brooklyn Edison Co.	<b>BE</b>	Brooklyn Edison Co.
<b>BEL</b>	Kingdom of Belgium	<b>BEL</b>	Kingdom of Belgium
<b>BER</b>	City of Berne (Switzerland)	<b>BER</b>	City of Berne (Switzerland)
<b>BF</b>	Booth Fisheries Co.	<b>BF</b>	Booth Fisheries Co.
<b>BFQ</b>	Buffalo & Susquehanna R. R.	<b>BFQ</b>	Buffalo & Susquehanna R. R.
<b>BGK</b>	Bangor & Aroostook R. R. Co.	<b>BGK</b>	Bangor & Aroostook R. R. Co.
<b>BGN</b>	City of Bergen (Norway)	<b>BGN</b>	City of Bergen (Norway)
<b>BGU</b>	Compania Azucarea Baragua	<b>BGU</b>	Compania Azucarea Baragua
<b>BH</b>	Bush Terminal Co.	<b>BH</b>	Bush Terminal Co.
<b>BHB</b>	Bush Terminal Buildings Co.	<b>BHB</b>	Bush Terminal Buildings Co.
<b>BHL</b>	Brier Hill Steel Co.	<b>BHL</b>	Brier Hill Steel Co.
<b>BI</b>	National Biscuit Co.	<b>BI</b>	National Biscuit Co.



- BK** Brunswick Terminal & Ry. Sec. Co.  
**BL** Baldwin Locomotive Works  
**BLP** Bell Telephone Co. of Pa.  
**BLR** Barnet Leather Co.  
**BLV** Republic of Bolivia  
**BM** Batopolis Mining Co.  
**BMB** N. Y., B'klyn & Manh'n Beach R. R.  
**BMP** British Empire Steel Corp., Ltd.  
**BMT** Brooklyn-Manhattan Transit Co.  
**BN** Brooklyn, Queens Co. & Suburban  
**BNT** Beech-Nut Packing Co.  
**BO** Baltimore & Ohio R. R.  
**BOS** American Bosch Magneto Corp.  
**BP** Union Bag and Paper Corp.  
**BR** Buffalo, Rochester & Pittsburg Ry.  
**BS** Bethlehem Steel Corporation  
**BSQ** Buffalo and Susquehanna Iron Co.  
**BSY** Ches. & Ohio, Big Sandy Ry. Co.  
**BT** Butte & Superior Mining Co.  
**BU** Brooklyn Union Gas Co.  
**BV** Brooklyn Union Elevated R. R.  
**BW** Brown Shoe Co.  
**BWV** B. & O., Pitt., L. E. & W. Va. System  
**BWY** Broadway & Seventh Ave. R. R.  
**BX** Balto. & Ohio Southwestern Ry.  
**BY** Bayuk Brothers, Inc.  
**BZ** United States of Brazil  
**C** Anaconda Copper Mining Co.  
**CA** Canadian Pacific Co.  
**CAB** Ill. Central, Cairo Bridge  
**CAN** American Can Co.  
**CAR** Carolina Central Ry.  
**CB** Central Branch, Union Pacific Ry.  
**CBG** Central R. R. and Banking Co. of Ga.  
**CBR** Cuba Railroad Co.  
**CC** Cleveland, Cin., Chic. & St. Louis Ry.  
**CCG** Cincinnati Gas & Electric Co.  
**CCH** American Chiclé Co.  
**CCK** Crown Cork & Seal Co.  
**CCL** Carolina, Clinchfield & Ohio  
**CCM** Consolidation Coal Co. of Maryland  
**CDN** Dominion of Canada Bonds  
**CDP** Cerro de Pasco Copper Corp.  
**CDT** Central District Telephone Co.  
**CDU** Cleveland Union Terminal  
**CE** Chicago & Eastern Illinois R. R.  
**CEN** N. Y. Central & Hudson River R. R.  
**CF** Colorado Fuel & Iron Co.  
**CG** Columbia Gas & Electric Co.  
**CGB** Con. Gas Electric Light & Power Co. of Baltimore  
**CGC** Consumers' Gas Co. of Chicago  
**CGE** Canadian Gen. Electric  
**CGL** Chicago Gas Light & Coke Co.  
**CGM** Columbia Graphophone Mfg. Co.  
**CGR** Consolidated Cigar Corp.  
**CGS** California Gas & Electric Corp.  
**CH** Nash., Chattanooga & St. L. Railway  
**CHD** Cincinnati, Hamilton & Dayton Ry.  
**CHE** Chicago & Erie R. R.  
**CHI** Chicago, St. Louis & N. O. R. R.  
**CHL** Chile Copper Co.  
**CHM** Chandler Motor Car Co.  
**CHN** Chinese Government, Hu-Kuang Rys.  
**CHO** Choctaw, Oklahoma & Gulf R. R.  
**CHR** Chicago Railways Co.  
**CHU** Chicago Union Station  
**CHW** Chicago and West Michigan  
**CI** Caddo Central Oil & Refining Co.  
**CIL** Chicago, Indianapolis & Louisville Ry.  
**CIM** Callahan Zinc Lead Co.  
**CIN** Cin., Indianapolis, St. L. & Chic. R. R.  
**CIP** U. S. Cast Iron Pipe & Foundry Co.  
**CIS** Continental Insurance Co.  
**CK** Central Coal & Coke Co.  
**CL** Central Leather Co.  
**CLM** Republic of Colombia  
**CLN** Cincinnati, Lebanon & Northern  
**CLO** Colorado Industrial Co.  
**CLS** N. Y. Central, Lake Shore 3½s.  
**CLU** Cluett, Peabody & Co.  
**CLV** Cleveland Short Line  
**CLY** Conley Tin Foil Corp.  
**CLW** Cleveland, Lorain & Wheeling Ry.  
**CMC** N. Y. Central, Michigan Cen. 3½s.  
**CML** Commercial Cable Co.  
**CMM** Calumet and Arizona Mining Co.  
**CMP** Computing, Tabulating Recording Co.  
**CMR** Continental Motors Corp.  
**CMS** Consumers Power Co.  
**CMT** Cumberland Telephone & Tel. Co.  
**CN** Columbus & Ninth Ave. R. R.  
**CNH** Carson Hill Gold Mining Co.  
**CNO** Canadian Northern Ry.  
**CNS** Cuba Cane Sugar Co.  
**CO** Chesapeake & Ohio Railway  
**COP** City of Copenhagen  
**COS** Cosden & Co.  
**COT** Continental Can Co.  
**CP** Central Pacific Ry.  
**CPC** Commonwealth Power Corp.  
**CPK** California Packing Corp.  
**CPT** Chicago Pneumatic Tool Co.  
**CPU** California Petroleum Corporation  
**CPW** J. I. Case Plow Works Co.  
**CR** Corn Products Refining Co.  
**CRS** City of Christiania (Norway)  
**CRT** Certain-Teed Products Corp.  
**CRU** Crucible Steel Co. of America  
**CRW** Conn. Railway & Lighting Co.  
**CRX** Crex Carpet Co.  
**CS** Canada Southern Railway  
**CSM** Chicago, St. Paul & Minneapolis  
**CSS** Canada Steamship Line  
**CST** Chicago, St. Louis & Pittsburg R. R.  
**CSU** Cuban American Sugar Co.  
**CSV** Commercial Solvents Corp.  
**CSX** City of Sao Paulo  
**CTC** Comstock Tunnel Co.  
**CTM** J. I. Case Threshing Machine Co.  
**CTX** Consolidated Textile Corp.  
**CU** Republic of Cuba Bonds  
**CUV** Union Elevated of Chicago  
**CW** Chicago & Western Indiana R. R.  
**CX** Colorado & Southern Ry.  
**CY** Chino Copper Co.  
**CZ** Czechoslovak Republic  
**D** Denver & Rio Grande R. R.  
**DB** De Beers Con. Mines Ltd., Amn. sh.  
**DE** Detroit & Mackinac Ry. Co.  
**DEG** Detroit City Gas Co.  
**DEI** Dutch East Indies (Bonds)  
**DEN** Kingdom of Denmark  
**DER** Deere & Co.  
**DES** Des Moines & Ft. Dodge R. R.  
**DH** Delaware & Hudson Canal Co.

**DHO** Durham Hosiery Mills  
**DI** Duluth & Iron Range R. R.  
**DIS** Consolidated Distributors, Inc.  
**DK** New York Dock Co.  
**DL** Dela., Lacka. & Western R. R.  
**DMU** Danish Consolidated Municipal Loan  
**DN** Diamond Match Co.  
**DO** Dome Mines Co.  
**DOM** Dominican Republic  
**DP** E. I. Du Pont De Nemours & Co.  
**DPW** E. I. Du Pont De Nemours Powd. Co.  
**DQ** Duquesne Light Co.  
**DR** Distillers' Securities Corporation  
**DRU** United Drug Co.  
**DS** Duluth, South Shore & Atlantic Ry.  
**DSV** Davison Chemical Co. (The)  
**DT** Detroit Edison Co.  
**DU** Detroit United Railways  
**DW** Dayton Power & Light Co.  
**DX** Duluth Superior Traction Co.  
**DY** Associated Dry Goods Corp.

**E** Erie R. R.  
**EB** Electric Storage Battery Co.  
**EF** N. Y. Edison Co. Bonds  
**EFU** Empire Gas & Fuel Co. Bonds  
**EG** Emerson Brantingham Co.  
**EGL** Erie General Lien  
**EGO** White Eagle Oil & Refining Co.  
**EH** Elk Horn Coal Corp.  
**EJ** Endicott, Johnson Corp.  
**EJO** Elgin, Joliet & Eastern Ry.  
**EK** Edison Illuminating of Brooklyn  
**EM** Eastman Kodak Co. of N. J.  
**EN** National Enameling & Stamping Co.  
**EP** Erie & Pittsburg R. R.  
**ESU** Eastern Cuba Sugar Co.  
**ET** East Tenn., Virginia & Georgia R. R.  
**EV** Evansville & Terre Haute R. R.  
**EVI** Evansville & Indianapolis R. R.  
**EW** Lake Erie & Western R. R.  
**EXY** Exchange Buffet Corp.

**FBO** Fisher Body Ohio Co.  
**FD** Fort Worth & Denver City Ry.  
**FG** Fort Worth & Rio Grande Ry.  
**FH** Government of the French Republic  
**FI** Fairbanks Co.  
**FK** Fisk Rubber Co.  
**FL** Florida East Coast Ry.  
**FM** Famous Players, Lasky Corp.  
**FMN** Framerman Indus. Devl. Corp.  
**FN** Flint & Pere Marq., Port Huron Div.  
**FP** Flint & Pere Marquette R. R.  
**FPX** Fidelity Phenix Fire Ins.  
**FR** Fisher Body Corp.  
**FRS** American Foreign Securities Co.  
**FRU** United Fruit Co.  
**FS** Federal Mining and Smelting Co.  
**FT** Freeport Texas Co.  
**FU** Mutual Fuel Co.  
**FV** Fifth Ave. Bus Securities Corp.  
**FW** Pittsburg, Fort Wayne & Chic. Ry.  
**FX** Central Foundry Co.  
**FY** American Steel Foundries

**G** Consolidated Gas Co.  
**GB** Granby Consolidated Mining Smelt-  
 ing and Power Co., Ltd.

**GCN** Georgia-Carolina & Northern  
**GDV** Gray & Davis, Inc.  
**GE** General Electric Co.  
**GF** Gulf & Ship Island R. R.  
**GG** General Baking Co.  
**GH** Geo. W. Helme Co.  
**GI** Gila Valley, Globe & Northern Ry.  
**GIM** Gimbel Bros., Inc.  
**GK** Georgia & Alabama Ry.  
**GL** Gaston, Williams & Wigmore, Inc.  
**GLN** Glidden Co. (The)  
**GLO** Gilliland Oil Co.  
**GLP** Goldwyn Picture Corp.  
**GM** General Motors Co.  
**GMD** General Motors Corp. Debenture Stk.  
**GN** Green Bay & Western Ry.  
**GNP** Greene Cananea Copper Co.  
**GNR** Great Northern Railway  
**GNT** Grand Trunk Ry. of Canada  
**GO** Central of Georgia Ry.  
**GOR** Goodyear Tire & Rubber Co. (The)  
**GPW** Great Falls Power Co.  
**GQ** Great Northern, Preferred Stock  
**GR** B. F. Goodrich Co.  
**GRX** General Refractories Co.  
**GS** Gold & Stock Telegraph Co.  
**GSG** Guantanamo Sugar Co.  
**GST** Gulf States Steel Co.  
**GSW** Great Western Sugar Co. (The)  
**GT** General American Tank Car Corp.  
**GU** Gulf Mobile and Northern  
**GW** Chicago & Great Western Railway  
**GX** Galv., H. & San A., Mex. & Pac. Div.  
**GY** General Cigar Co.

**H** New York & Harlem R. R.  
**HH** Hendee Manufacturing Co.  
**HHY** Hershey Chocolate Co.  
**HIT** Republic of Haiti  
**HK** Harbison Walker Refractories Co.  
**HL** American Hide & Leather Co.  
**HLM** Holland America Line  
**HM** Homestake Mining Co.  
**HMN** H. R. Mallinson & Co.  
**HMO** Hupp Motor Car Corp.  
**HMT** Hudson Motor Car Co.  
**HMX** Humble Oil & Refining Co.  
**HMY** U. S. Hoffman Machinery Corp.  
**HN** Havana Electric Ry.  
**HNR** Havana Elec. Ry., Lgt. & Power Co.  
**HO** Houston Oil Co. of Texas  
**HP** N. Y. Gas & Elec. Lgt., Heat & P. Co.  
**HR** International Harvester Co.  
**HRT** Hartman Corporation  
**HRW** Habirshaw Electric Cable Co.  
**HT** Houston & Texas Central R. R.  
**HU** Hudson & Manhattan Railroad Co.  
**HV** Hocking Valley Ry.  
**HW** Hackensack Water Co.  
**HX** Houston East & West Texas  
**HY** Hydraulic Steel Co. (The)

**IA** Iowa Central Railway  
**IB** Interborough Metropolitan Co.  
**IBC** Interboro Cons. Cor.  
**ICM** International Cement Corp.  
**ICR** Island Creek Coal Co.



- ID** U. S. Industrial Alcohol Co.  
**IDM** Indiahoma Refining Co.  
**IG** Indiana Natural Gas and Oil  
**IGL** International Agr. Corporation  
**IJ** Ill. Cent., Chic., St. L. & N. O. jt. bds.  
**IK** International Nickel  
**IL** Illinois Central R. R.  
**ILO** Illinois Central, Louisville Division  
**ILS** International Salt Co.  
**ILX** Illinois Central, St. Louis Division  
**IM** St. L., Iron M. & Southern Ry.  
**IMR** St. L., Iron Mnt. & S. Riv. & Gulf Div.  
**IN** Institute Iri. Work & Dev. Agri. S. A.  
**INA** Indiana, Illinois & Iowa R. R.  
**IND** Chicago & Indiana Coal Railway Co.  
**INO** International Combustion Corp.  
**INS** Inspiration Consolidated Copper Co.  
**IO** Island Oil & Transport Corp.  
**IP** International Paper Co.  
**IR** Ingersoll-Rand Co.  
**IRO** Iron Products Corp.  
**IRR** Indian Refining Co.  
**IRT** Interborough Rapid Transit Co.  
**IS** American Ice Co.  
**ISC** Illinois Steel Co.  
**ISS** International Shoe Co.  
**IT** International & Great Nor. R. R.  
**IV** Invincible Oil Corp.  
**IX** Indiana Steel Co.
- J** Central R. R. of New Jersey  
**JCP** J. C. Penny Co.  
**JF** Jefferson & Clearfield Coal & Iron Co.  
**JG** St Joseph & Grand Island R. R.  
**JK** Jamestown, Franklin & Clearfield R. R.  
**JL** Jones & Laughlin Steel Corp.  
**JO** Joliet & Chicago  
**JP** Imperial Japanese Govt. Bonds  
**JT** Jones Brothers Tea Co.  
**JU** Alaska-Juneau Gold Mining Co.  
**JW** Jewel Tea Co.  
**JX** Ajax Rubber Co.
- K** Missouri, Kansas & Texas Ry.  
**KA** Julius Kayser & Co.  
**KCS** St. Paul and Kansas City Short Line  
**KG** S. S. Kresge Co.  
**KK** Keokuk & Des Moines R. R.  
**KLT** Kansas City Power & Light Co.  
**KM** Kanawha & Michigan Ry.  
**KN** Kennecott Copper Corp.  
**KNN** G. R. Kinney & Co., Inc.  
**KNO** Knoxville & Ohio R. R.  
**KNS** Kansas & Gulf Co.  
**KNY** Kansas City Terminal Ry.  
**KO** Coco Cola Co.  
**KP** Kelly-Springfield Tire Co.  
**KR** Kings Co. Electric Lt. & Power Co.  
**KS** S. H. Kress & Co.  
**KST** Keystone Tire & Rubber Co.  
**KSU** Kansas City & Southern Ry.  
**KSY** Kansas City, Ft. Scott & Memp. R. R.  
**KU** Kansas City, Ft. Scott & Memp. Ry.  
**KV** Kings County Elevated R. R.  
**KW** Kelsey Wheel Co.  
**KY** Kentucky Central R. R.
- L** Liberty Loan, U. S. Govt.  
**LF** Loft Incorporated  
**LG** Laclede Gas Co. of St. Louis  
**LI** Long Island R. R.  
**LK** Lackawanna Steel Co.  
**LM** Liggett & Myers Tobacco Co.  
**LM.B.** Liggett & Myers Tob. Co., Ser. "B"  
**LMO** Lou. & Nash., N. Orleans & Mob. Div.  
**LMW** Lima Locomotive Works, Inc.  
**LN** Louisville & Nashville R. R.  
**LNS** Louisville & N.R.R. & S.Ry. Monon 4s.  
**LO** Loose-Wiles Biscuit Co.  
**LOR** P. Lorillard Co.  
**LR** Lee Rubber & Tire Corp.  
**LS** Lake Shore & Michigan Southern Ry.  
**LT** National Lead Co.  
**LU** Underground Electric Ry. of London  
**LV** Lehigh Valley R. R.  
**LW** Loews Incorporated  
**LX** Lexington Ave. & Pavia Ferry R. R.  
**LY** City of Lyons (France)
- M** International Mercantile Marine  
**MAH** Mahoning Coal Railroad Co.  
**MAN** Manhattan Elevated Railway  
**MAS** Manhattan Shirt Co.  
**MAY** May Department Stores Co.  
**MB** Manhattan Beach Co.  
**MC** Michigan Central R. R.  
**MD** Marand Oil Co.  
**ME** Morris & Essex R. R.  
**MEX** United States of Mexico  
**MG** Michigan State Telephone Co.  
**MGR** Mergenthaler Linotype Co.  
**MH** Monongahela Power & Railway Co.  
**MI** Miami Copper Co.  
**MIL** Milwaukee & Northern R. R.  
**MK** The Mackay Companies  
**MKO** Missouri, Kansas & Oklahoma  
**MKR** Market Street Ry. Co.  
**MM** St. Paul, Minneapolis & Manitoba R.R.  
**MMO** Maxwell Motor Co.  
**MMX** Magma Copper Co.  
**MN** Mexican Petroleum Co.  
**MNO** Mexican Northern Ry.  
**MNR** Manila Elec. Corp. (The)  
**MNS** Mullins Body Corp.  
**MNT** Montana Power Co.  
**MNU** Manati Sugar Co.  
**MO** Mobile & Ohio R. R.  
**MOH** Mohawk and Malone.  
**MON** Montana Central R. R.  
**MOO** Moon Motor Car  
**MOR** Mother Lode Coalition Mines Co.  
**MOS** Mobile & Ohio, St. L. & Cairo  
**MOV** City of Montevideo  
**MOW** Montgomery Ward & Co.  
**MP** Missouri Pacific Railway  
**MPW** Moline Plow Co.  
**MQ** Mack Trucks, Inc.  
**MR** Marlin-Rockwell Corp.  
**MRS** Morris & Co.  
**MRT** Martin Parry Corp.  
**MS** Minneapolis & St. Louis R. R.  
**MSM** Minn., St. Paul & Sault Ste. Marie Ry.  
**MSO** Middle States Oil Corp.  
**MSS** City of Marseilles (France)  
**MSX** Mexican Seaboard Oil Co.

- MSY** Manhattan Electrical Supply Co.  
**MT** Montreal Tramways Co.  
**MTT** Metropolitan Edison  
**MTY** McIntyre Porcupine Mines, Ltd.  
**MV** Midvale Steel & Ordance Co.  
**MW** Milwaukee, Lake Shore & West. R. R.  
**MX** National Railways of Mexico  
**MXC** Mexican Central Railway  
**MXO** National R. R. Co. of Mexico  
**MY** Milwaukee Elec. Ry. & Light Co.  
**M&B** Mobile & Birmingham R. R.  
**MZ** Macy (R. H.) & Co.
- N** Norfolk & Western Ry.  
**NA** North American Co.  
**NAE** North American Edison  
**NC** National Conduit & Cable Co.  
**NCM** National Acme Co.  
**NCS** National Cloak & Suit Co.  
**NF** Niagara Falls Power Co.  
**NFS** Nashville, Florence & Shef'd Ry.  
**NH** New York, New Haven & Hart. R. R.  
**NJ** United New Jersey R. R. & Canal Co.  
**NK** N. Y. State Canal Imp. Bonds  
**NL** New York, Lackawanna & W. R. R.  
**NLO** Northern Ohio Traction & Light  
**NLW** N. Y., L. E. & West. Dock & Imp.  
**NN** Northern Central Railway  
**NNR** New York Connecting R. R.  
**NNS** Kingdom of the Netherlands  
**NNT** Northwestern Bell Telephone Co.  
**NNY** Nunnally Co. (The)  
**NOR** Northern Railroad of Cal.  
**NP** Northern Pacific Ry.  
**NPO** Norfolk and W. Pocahontas Coal Co.  
**NPW** Northern States Power Co.  
**NQ** Nova Scotia Steel & Coal Co.  
**NR** Northern Ohio Ry.  
**NRD** Norfolk & Western, New River Div.  
**NRV** N. Y. Railways Co.  
**NS** Norfolk Southern R. R. Co.  
**NSB** New York Shipbuilding Corp.  
**NSH** National Starch Co.  
**NSO** Norfolk & Southern R. R.  
**NSS** Nash Motor Co.  
**NST** New York State Railways  
**NSU** National Surety Co.  
**NT** New York Telephone Co.  
**NTT** New England Tel. & Tel.  
**NTU** National Tube Co.  
**NTW** Newport News & Hampton Ry. Gas & Electric Co.  
**NTX** New Orleans, Texas and Mexico Ry.  
**NU** Nassau Electric Ry.  
**NV** Nevada Con. Copper Co.  
**NW** Chicago & Northwestern Ry.  
**NWT** Northwestern Telegraph Co.  
**NWY** Kingdom of Norway  
**NX** New Orleans Railway & Light Co.  
**NY** City of N. Y. Corporate Stk. or Bonds  
**NYS** N. Y. State Highway Bonds
- OB** Owens Bottle Machine Co.  
**OBW** Ohio Body & Blower Co. (The)  
**OD** Ogdensburg & Lake Champlain  
**OF** Ohio Fuel Supply Co.  
**OHW** Ohio, Indiana & Western R. R.  
**OK** Oklahoma Producing & Refining Corp. of America
- OM** Chicago, St. P., Minneapolis & Omaha  
**ONT** Ontario Silver Mining Co.  
**OP** Old Dominion Co.  
**OPW** Ontario Power, Niagara Falls  
**OPX** Orpheum Circuit, Inc.  
**OR** Oregon Railroad & Navigation Co.  
**ORC** Oregon & California R. R.  
**ORE** Great Northern Temporary Ctfs. for Ore Properties  
**ORS** Oregon Short Line R. R.  
**ORW** Oregon-Washington R. R. & Nav. Co.  
**OST** Otis Steel Co.  
**OT** Otis Elevator Co.  
**OV** Willys-Overland Co.  
**OW** New York, Ontario & Western Ry.
- P** Pacific Mail Steamship Co.  
**PA** Pennsylvania R. R.  
**PAC** Pacific Telephone & Telegraph Co.  
**PB** United Paper Board Co.  
**PBW** Phila., Balt. & Washington R. R.  
**PC** Pittsburg Coal Co.  
**PCG** Pacific Gas & Electric Co. Bonds  
**PD** Pond Creek Coal Co.  
**PDF** Panhandle Producing & Refining Co.  
**PDV** Pacific Development Corp.  
**PE** Peoria & Eastern Railway  
**PF** Pacific Oil Co.  
**PFN** Producers & Refiners Corp.  
**PG** Pittsburg Steel Co.  
**PGS** Chi., Milwaukee & Puget Sound Ry.  
**PH** Philadelphia Co.  
**PHM** Phillips Petroleum Co.  
**PJ** Phillips Jones Corp.  
**PK** Pettibone Mulliken Co.  
**PKM** Packard Motor Car Co.  
**PMO** Pacific R. R. of Missouri  
**PMY** Pittsburg, McKeesport, Youg.  
**PO** People's Gas Light & Coke Co.  
**POL** Pierce Oil Corp.  
**PP** Pan-American Petroleum & Tran. Co.  
**PPB** Pan-Am. Pet & Trans. Class B Com.  
**PQ** Pere Marquette R. R.  
**PQR** Pere Marquette Prior Pr. Vot. Tr. Ctf.  
**PRS** Pressed Steel Car Co.  
**PRT** Porto-Rican American Tobacco Co.  
**PRX** Parish & Bingham Corp.  
**PRY** Paris-Lyons Mediterranean R. R. Co.  
**PS** Postum Cereal Co., Inc.  
**PSG** Punta Alegre Sugar Co.  
**PSH** Pittsburg, Shenang & L. E. Bonds  
**PSU** South Porto Rico Sugar Co.  
**PSV** Public Service Corporation of N. J.  
**PSX** Penn Seaboard Steel Corp.  
**PSY** Providence Securities Co.  
**PT** Pitts., Cin., Chicago & St. Louis R. R.  
**PTT** Cleveland & Pittsburg R. R.  
**PTX** City of Porte Alegre  
**PU** Pullman Company  
**PUY** Pure Oil Co. (The)  
**PV** Philadelphia Rapid Transit  
**PVY** Penna Edison Co.  
**PW** Pittsburg & West Virginia Ry. Co.  
**PWW** Piggly Wiggly Stores, Inc.  
**PX** Pacific Coast Co.  
**PY** Pitts., Youngstown & Ashtabula R. R.  
**PZ** Pierce Arrow Motor Car Co.



- Q** Chicago, Burlington & Quincy R. R.  
**QN** State of Queensland
- R** Reading Co.  
**RA** Ches. & Ohio, Richmond & Alleg. Div.  
**RB** New York & Rockaway Beach R. R.  
**RBC** Republic Iron & Steel Co.  
**RC** Ray Consolidated Copper Co.  
**RCH** Republic of Chile  
**RD** Equitable Tr. Cdfs. N. Y. Shares  
     Royal Dutch Co.
- RDM** Rand Mines Limited Amn. Shares  
**RDN** Richmond & Danville R. R.  
**RGS** Rio Grande Southern R. R.  
**RI** Chicago, Rock Island & Pacific Ry.  
**RIS** Robert Reis & Co.  
**RJ** Reading Co., Jersey Central, Coll. 4s.  
**RJN** City of Rio de Janeiro  
**RJR** Reynolds (R. J.) Tobacco Co.  
**RK** Rock Island, Arkansas and Louisiana  
**RL** U. S. Realty and Improvement Co.  
**RM** Republic Motor Truck Co., Inc.  
**RNS** Rensselaer & Saratoga R. R.  
**RO** Rio Grande & Western Railway  
**RPX** Replogle Steel Co.  
**RR** Remington Typewriter Co.  
**RRS** Remington Arms  
**RS** United Retail Stores Corp.  
**RSU** State of Rio Grande Do Sul  
**RSW** Rogers Brown Iron Co. (Bonds)  
**RSX** Reynolds Spring Co.  
**RSY** R. R. Securities Co., Ill. Cen. Stock  
**RU** United States Rubber Co.  
**RUS** Russian Government  
**RV** Rutland Railroad  
**RX** Advance Rumely Co.  
**RY** Railway Steel Spring Co.
- S** American Sugar Refining Co.  
**SA** San Antonio & Aransas Pass Ry.  
**SAK** St. Lawrence & Adirondack Ry.  
**SAO** State of San Paulo  
**SAV** Sixth Ave. R. R.  
**SB** Seaboard Air Line  
**SBS** Stern Brothers  
**SBT** Southern Bell Telephone Co.  
**SC** Sinclair Consolidated Oil Corp.  
**SCG** South Carolina & Georgia R. R.  
**SCL** Standard Oil Co. (California)  
**SCP** United Steamship Co. of Copenhagen  
**SCS** Santa Cecilia Sugar Corp.  
**SD** St. Paul & Duluth R. R.  
**SDG** Spaulding (A. G.) & Bro.  
**SE** Seine (Dept. of the)  
**SEN** Seneca Copper Corp.  
**SF** St. Louis & San Francisco R. R.  
**SG** Standard Gas & Electric Co.  
**SH** Shell Transport & Trading Co. Equit.  
     Tr. Co. Cdfs. for Am. Shares  
**SHN** Sharon Steel Hoop Co.  
**SI** Superior Oil Corp.  
**SIM** Simms Petroleum Co.  
**SIP** Sinclair Pipe Line Co.  
**SJ** St. Joseph Lead Co.  
**SK** Sears-Roebuck Co.  
**SL** New York, Chicago & St. Louis R. R.  
**SLR** St. Louis, Rocky Mount. & Pac. Co.  
**SLS** Sloss, Sheffield Steel & Iron Co.
- SM** Standard Milling Co.  
**SN** Saxon Motor Car Corp.  
**SNA** South & North Alabama R. R.  
**SNJ** Standard Oil Co. of New Jersey  
**SNU** American Snuff Co.  
**SP** Southern Pacific Co.  
**SR** Southern Railway  
**SRM** Southern Ry., Mobile and Ohio Cdfs.  
**SS** St. Louis Southwestern R. R.  
**SSO** St. Louis Southern  
**SSS** City of Soissons  
**SSU** Superior Steel Corp.  
**SSV** Kingdom of the Serbs, Croats & Slov.  
**SSY** Spicer Manufacturing Corp.  
**ST** Chicago, Milwaukee & St. Paul Ry.  
**STM** Stromberg Carburetor Co.  
**STR** Un. Rys. of St. L. St., L. Transit Co.  
**STU** Studebaker Corporation  
**STW** St. Louis, Peoria & N. Western  
**STX** Stewart-Warner Speedometer Corp.  
**SU** Sterling Products Inc.  
**SUB** Submarine Boat Corp.  
**SUX** Shell Union Oil Corp.  
**SUY** Sinclair Crude Oil Pur. Co. (Bonds)  
**SV** Scioto Valley & New England  
**SVG** Savage Arms Corp.  
**SVW** Savannah, Florida & Western  
**SW** N. Y. Susquehanna & Western R. R.  
**SWA** Sweet Co. of America, Inc. (The)  
**SWN** Kingdom of Sweden  
**SWZ** Swiss Confederation  
**SX** Steel & Tube Co. of America (The)  
**SY** Skelly Oil Co.  
**SYR** Syracuse Lighting Co.  
**SYZ** Cin., Sandusky & Cleveland R. R.  
**SZ** Shattuck Arizona Copper Co.
- T** Texas & Pacific Railway  
**TAS** Terminal R. R. Association of St. L.  
**TAV** Third Ave. R. R.  
**TB** Tobacco Products Cor.  
**TC** Tennessee Copper Co.  
**TCC** Tennessee Copper and Chemical Corp.  
**TCF** Temtor Corn & Fruit Products Co.  
**TCN** Trans. Continental Oil Co.  
**TD** Toledo Railways and Light Co.  
**TGS** Texas Gulf Sulphur Co.  
**TH** American Thread Co.  
**TI** Tennessee Coal, Iron & R. R. Co.  
**TKR** Timken Roller Bearing Co.  
**TLT** Texas Pacific Land Trust  
**TOU** Toledo, St. Louis and Western Ry.  
**TP** Toledo, Peoria & Western R. R.  
**TR** Tri-City Railway & Light Co.  
**TU** Transue & Williams Stl. Forging Corp.  
**TV** Tide Water Oil Co.  
**TW** Twin City Rapid Transit  
**TWY** Toledo, Walhonding Valley & Ohio  
**TX** Texas & New Orleans R. R.  
**TXO** Texas Co.  
**TXX** Texas Pacific Coal & Oil Co.  
**TY** Toledo & Ohio Central Railway  
**TYO** City of Tokyo (Japan) Bonds
- U** Union Pacific R. R.  
**UB** United States Tobacco Co.  
**UC** United Cigar Stores Co.  
**UD** Ulster & Delaware R. R.

**UF** U. S. Food Products Corp.  
**UG** United Fuel Gas Co.  
**UGY** Republic of Uruguay  
**UH** Utah & Northern  
**UK** United Kingdom of G. B. and Ireland  
**UN** Underwood Typewriter Co.  
**UNR** United Rail Roads of S. F.  
**UO** Union Oil Co.  
**UPW** Utah Power & Light Co.  
**URY** United Stores Reality Corp.  
**USL** United Railways Co. of St. Louis  
**UT** Utah Copper Co.  
**UTX** Union Tank Car Co.  
**UV** U. S. Smelting Refining & Mining Co.  
**UW** United Ry. Investment Co. of S. F.  
**UX** United States Express  
**UY** United Dyewood Corp.  
**UZ** Utah Securities Corp.

**V** Victory Loan, U. S. Govt.  
**VAN** Vanadium Corp. of America  
**VC** Virginia Carolina Chemical Co.  
**VD** Virginia 6s, Deferred Cdfs.  
**VK** Virginia Iron, Coal & Coke Co.  
**VM** Virginia Midland Railway  
**VN** Vandalia R. R.  
**VR** Virginian Railway Co.  
**VRT** Van Raalte Co.  
**VV** V. Vivaudou, Inc.  
**VW** Virginia & South Western  
**VX** Vulcan Detinning Co.  
**VY** Virginia Ry. & Power Co.

**W** Western Union Telegraph Co.  
**WA** Wabash R. R. Co.  
**WAT** Wright Aeronautical Corp.  
**WBR** Weber & Heilbronner  
**WC** Wisconsin Central Ry.  
**WCN** Washington Central Ry.  
**WCS** Wis. Cen. Sup. & Dul. Div. Term.  
**WCR** N. Y., Westchester & Boston R. R.  
**WE** Wilkesbarre & Eastern  
**WF** Wells Fargo Express  
**WH** Westchester Lighting Co.  
**WHI** White Motor Car Co.  
**WHP** White Oil Corp.  
**WIL** Wilson & Co.  
**WIN** Winchester Repeating Arms Co.  
**WK** Westinghouse Air Brake Co.  
**WKN** Wickwire Spencer Steel Corp.  
**WL** Wheeling & Lake Erie Railway  
**WM** Western Maryland  
**WN** Western Electric Co.  
**WNC** Western North Carolina R. R.  
**WNY** Western New York & Penn. R. R.  
**WOR** Worthington Pump & Mach'ry Corp.  
**WR** Western Pacific R. R. Corporation  
**WRS** Western Pacific R. R. Company  
**WS** West Shore R. R.  
**WSU** Warner Sugar Refining Co.  
**WW** F. W. Woolworth Co.  
**WX** Westinghouse Electric & Mfg. Co.  
**WY** American Woolen Co.

**X** United States Steel Cor.  
**YB** Youngstown Sheet & Tube Co. (The)  
**ZU** City of Zurich (Switzerland)

GOVERNMENTS

U. S. GOVERNMENT SECURITIES

**2s** U. S. 2s Cou.....1930  
**4s** U. S. 4s.....1925  
**4½s** Treasury Bonds.....1947-52  
**DC** District Columbia 3-65s.....1924  
**PAN** Panama Canal 10-30-yr. 2s.....1936  
**3s** Panama Canal 3s.....1961  
**PHI** Philippine Island Ld. Pur. 4s....1914-34

WORDS AND PHRASES

**A** Assented, Class A  
**AJ** Adjustment  
**APD** Assessment Paid or All Paid  
**B** Bonds, Class B, or (in fig.) Bid or Buyer  
**BNK** Bank  
**C** Bonds, Class C (in fig.) Coupon or following a sale, cash  
**CH** Clearing House  
**CLT** Collateral Trust  
**CN** Consolidated or Consols  
**CT** Certificates  
**CV** Convertible  
**D** Debenture or Division  
**EXT** Extended or Extension  
**FD** Funding  
**FLT** Flat, without interest  
**GM** General Mortgage  
**GNT** Land Grant  
**GTD** Guaranteed  
**I** First  
**II** Second  
**III** Third  
**IMP** Improvement  
**IN** Income  
**LL** Leased Lines  
**MTG** Mortgage  
**N** New or North  
**O** (In figures) Offered  
**OB** Opening of Books  
**PR** Preferred  
**R** Receipts  
**RE** Real Estate  
**REG** Registered  
**S** South, Southern, Stock, Series or (in figures) Seller, or Shares  
**SB** Small Bonds  
**SC** Scrip  
**SF** Sinking Fund  
**STA** Stamped  
**T** Terminal  
**TE** Tax Exempt  
**TR** Trust Receipts  
**UN** Unified  
**UR** Under the Rule  
**WI** When Issued  
**X** Ex-coupon Dividend or Interest

The general arrangements used to denote sales, bids and offers, follow:

Ciphers will be dropped from sales, in the following manner: One price following the name of a stock signifies a sale of 100 shares at that price; thus X 103¾ means 100 shares of United States Steel at 103¾; 200 shares



will be printed thus: X 2.103 $\frac{7}{8}$ ; 300 shares will be printed X 3.103 $\frac{7}{8}$ , and so on up to 1,000 shares which will be printed X 10.103 $\frac{7}{8}$ ; 1,500 shares will be printed X 15.103 $\frac{7}{8}$ ; 2,000 shares X 20.103 $\frac{7}{8}$ , and so on. In order that no confusion shall occur where the number of shares is near the price of a stock, the number of shares will be printed in full and followed by an S, thus: MA 300.S.2 $\frac{5}{8}$  will mean American Malt 300 shares at \$2 $\frac{5}{8}$  per share; K 1000.S.10 $\frac{7}{8}$  will mean 1000 Missouri, Kansas & Texas at \$10 $\frac{7}{8}$  per share; IBC 500.S.6 will mean 500 shares Interborough Corporation at \$6.00 per share, and so on. Odd Lots will be printed with the word "Shares" spelled out; thus: X.10 shares 103 $\frac{7}{8}$  will mean 10 shares United States Steel sold at 103 $\frac{7}{8}$ ; or M 116 shares 48 will mean 116 shares of International Mercantile Marine sold at 48. An offer alone, without a bid, is preceded by an 0 and a dot, thus: RO. 0. 75. A sale and offer, thus: RO. 75. 0. 75. A bid alone, without an offer, is followed by the letter B, thus: RO. 75. B. When a sale is not recorded in its proper place the price will be preceded by the abbreviation SLD., thus: RO. SLD. 75. When an error has been made by the reporter, or in printing, the last letter or figure is repeated several times, indicating that the quotation is to be thrown out, thus: RO. 75  $\frac{1}{2}$   $\frac{1}{2}$   $\frac{1}{2}$ . Three-day contracts in stocks which have been placed in the Clearing House will be printed thus: RO. 2. 75. 3 days.

### New York Stock Exchange Clearing House

An institution, now known as the *Stock Clearing Corporation*, the purpose of which is to clear stock transactions among its member brokers in much the same way as checks are cleared through a clearing house for its member banks.

Stock exchange clearing houses were first established in Europe, the Frankfort Stock Exchange inaugurating a system as early as 1867. At the present time, the system is used by all important stock exchanges throughout the world. The New York Consolidated Stock Exchange introduced its system in 1886, and the New York Stock Exchange in 1892.

Prior to the adoption of stock exchange clearing houses, it was necessary for a broker who had sold stocks to deliver them to the offices of the various purchasing brokers and collect payment therefor. Like-

wise, brokers from whom he had purchased stocks were compelled to deliver stocks to his offices and receive payment therefor.

At the present time, however, a broker at the close of each day's business makes up a clearing house sheet, displaying the purchases on the left-hand side, and sales on the right-hand. The number of shares, name of security, price, and name of broker to whom delivery or from whom receipt is to be made, are indicated. Thus, the left side shows the amount to be received, while the right side shows the amount to be delivered. If the broker's purchases in money value exceed his sales, the clearing house sheet is accompanied with a check payable to the Stock Clearing Corporation; but if the sales exceed the purchases then a credit memorandum showing the amount due from, or draft upon, the Stock Clearing Corporation is forwarded with the clearing house sheet.

In very few cases will a broker buy the same amount of a given stock as he sells, or vice versa. The *stock* difference, therefore, must be settled as well as the money difference. But the stock difference is provided for at the time the clearing house sheet is made up. "The balances of securities that may appear on one side or the other of the sheet must actually be received or delivered at a fixed 'delivery' or 'settlement' price, published by the clearing house in advance of the making up of the clearing sheet. The totals of these fixed delivery items are taken care of by a system of debits and credits in the clearing house. No injustice results from this practice, because the brokerage firm in making up the statement automatically credits or debits itself on the clearing sheet for any loss or profit (for which, of course, it is not responsible), that may arise because the arbitrary settlement price happens to be higher or lower than the contract price. And all such debits and credits by all brokerage houses concerned in the transactions will necessarily offset one another so that the sum total of all checks sent to the clearing house will just equal all drafts upon it."\*

The Stock Clearing Corporation was established in 1919 with a capital of \$500,000 divided into shares of \$100 each, all of which is owned by the New York Stock Exchange. Expenses are paid by the clearing members based on the number of shares cleared and their value. With certain exceptions, all transactions of stock exchange members must be cleared through the Stock Exchange Corporation, except that only transactions involv-

\* S. S. HUEBNER: *The Stock Market*, p. 194.

ing 100 share lots or multiples thereof, are eligible.

Only active securities, moreover, can be cleared in this way, the Stock Clearing Corporation designating from time to time, the list of securities which will be received for clearing purposes. These are known as clearing house stocks. (See Clearing House, New York Stock Exchange.)

#### BIBLIOGRAPHY

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#### New York Stock Exchange Schedule of Commissions

See New York Stock Exchange.

#### New York Sugar Exchange

See New York Coffee and Sugar Exchange.

#### Next of Kin

Those related by blood; heirs included in the provision of the statutes of distribution. (See Heir.)

#### Nickel

See Nickel Coin.

#### Nickel Coin

A name given to the United States five cent piece. It is classified as one of the *Minor Coins* (q. v.) by the Treasury Department. Its composition is 75 per cent. copper (57.87 grains) and 25 per cent. nickel (19.29 grains), or total weight of 77.16 grains. It is legal tender in amounts not exceeding 25 cents in any one payment and may be redeemed in lawful money upon presentation in sums of \$20, or multiples thereof. (See Token Money.)

#### Nick-Names of Stocks

Many of the leading stocks have nick-names by which they are popularly known in Wall Street. In some cases nick-names have been derived from the ticker abbreviation. For instance, Missouri Pacific is known as "Mop" (abbreviation MP), and People's Gas Light & Coke Company as "Post Office" (abbreviation PO). Other nick-names are "Betsey B" or "Bessie B" for Bethlehem Steel Class B (abbreviation BSB); "Nipper" for Northern Pacific (abbreviation NP); "Katy" for Missouri, Kansas & Texas (abbreviation K); and "Old Woman" for New York, Ontario and Western (abbreviation OW).

#### No Account

When a check is presented for collection through the clearing house for which the drawer as indicated, has no account on the books of the drawee bank, the latter returns it to the presenting bank for credit, with the memorandum entitled, "No Account" attached. (See Irregularities.)

#### No Funds

When a check is presented for collection through the clearing house for which the drawer as indicated, has no funds to the credit of his account with the drawee bank, the latter returns it to the presenting bank, for credit, with the memorandum entitled, "No Funds" attached. (See Irregularities.)

#### Nominal Assets

Assets of doubtful, indeterminable, or of undetermined or of no value, *e. g.*, good will, patents, trademarks, or fixtures, carried on the books at some arbitrarily low value *e. g.*, \$1.00.

#### Nominal Capital

The capital of a corporation as determined by the par value of its total authorized shares, as distinguished from the actual value of its net assets. The first is fixed by the certificate of incorporation; the second, as stated above.

#### Nominal Exchange

The rate of exchange based upon the market value of the *Monetary Unit* (q. v.) of the two trading countries, instead of the rate based upon the supply and demand of bills of exchange, *i. e.*, market rate. While nominal exchange is therefore synonymous with the *Mint Par of Exchange* (q. v.) whenever the trading countries are on a gold basis—a free gold market being maintained between them—it differs whenever the standard unit between the two nations is a different metal (due to uneven market fluctuations), when the gold standard is suspended, or when gold is displaced by paper money. (See Gold Basis, Commercial Parities.)

#### Nominal Par

The face value of a bond or share of stock, as distinguished from its market value, etc.

#### Nominal Price

See Nominal Quotation.



### Nominal Quotation

A price quoted for a security which is not based upon an actual bid or offering price, or upon the last sale, but indicative of the probable price obtainable through bargaining. (See Bid and Asked Quotations.)

### Nominal Rates

See Posted Rates.

### Nominal Value

Applied to securities this term means par or face value; applied to coins, it means face or denomination value, as distinguished from metal or bullion value.

### Non-Assented Securities

Securities, the owners of which have not consented to some proposed change in their status. (See Assented Securities.)

### Non-Assessable Stock

Stock, the owners of which cannot be legally called upon for additional payments in case of insolvency or otherwise. Stocks are technically non-assessable if they are fully paid when issued. In states which require stock to be issued only upon full payment in cash, stock sold for less than par is subject to assessment for the amount of the unpaid portion. Stocks of National banks, and of state banks and trust companies (in most states) carry double liability, but are not assessable beyond that amount. Otherwise, practically all stocks are non-assessable. (See Double Liability.)

### Non-Callable Bonds

Bonds which by their terms cannot be retired before their obligatory maturity; bonds which have no provision for *Prior Redemption* (q. v.); bonds which have no optional maturity date. (See Callable Bonds.)

### Non-Clearing House Stocks

Stocks not designated by the New York Stock Clearing Corporation to be cleared through that institution because of their inactivity. (See New York Stock Exchange Clearing House.)

### Non-Contingent Preference Stock

An English title for what corresponds to cumulative preferred stock in this country.

### Non-Cumulative Dividends

Dividends on non-cumulative preferred stock; dividends, which if not paid at the

regular fixed dividend period because earnings are not sufficient, are not in arrears, and there is no obligation on the part of the corporation to pay them at any subsequent period. For example, if a corporation cannot pay the dividends upon its 7 per cent. non-cumulative preferred stock in 1923, the stockholders lose their right to claim these dividends forever; or, if dividends are paid at 4 per cent., the remainder is lost for all time. Non-cumulative dividends, of course, are the reverse of *Cumulative Dividends* (q. v.).

Unless otherwise stated, all stock is non-cumulative. If the stock of a corporation is all of one class, however, nothing is to be gained by inserting the word *non-cumulative*, since dividends by their very nature are contingent upon earnings rather than fixed. Interest upon income bonds may be *cumulative* or *non-cumulative*. (See Preferred Stock.)

### Non-Member Banks

Banks not members of the Federal Reserve System. The term is also sometimes used to distinguish banks which are not members of a Clearing House Association.

### Non-Negotiable

See Negotiable Instruments, Non-Negotiable Instruments.

### Non-Negotiable Instruments

Instruments the title to which cannot be legally *transferred*. Any negotiable instrument may be made non-negotiable by stamping or writing the words "Non-negotiable" across its face. A check is non-negotiable when the word "Pay" is substituted for "Pay to the order of." Straight bills of lading and express receipts are not negotiable. Non-negotiated items, however, can be assigned. (See Negotiable Instruments.)

### Non-Negotiable Paper

See Negotiable Paper.

### Non-Participating Preferred Stock

See Preferred Stock.

### Non-Payment

See Notarial Protest Certificates, Protest.

### Non-Stock Moneyed Corporation

A savings bank, building and loan association, credit union, or related business engaged in some phase of banking and organized without shares of stock, the profits belong-

ing to the depositors. Non-stock banking corporations are also known as Mutual Associations.

### Non-Taxable Securities

See Tax Exempt Securities.

### Non-Validating Stamp

Banks which collect domestic drafts with bills of lading, warehouse receipts, or other documents attached, usually place a non-validating stamp on the back of all accompanying drafts. The purpose of this practice is to protect the bank against liability, or being any way responsible for the character of the goods designated in the bill of lading or other instrument, accompanying the draft. The indorsement reads as follows:

"This bank hereby notifies all concerned that it makes no representation or guaranty, and assumes no responsibility as to the genuineness, regularity or validity of bills of lading and/or other documents attached to this draft, nor as to the character, quantity, quality or condition of merchandise mentioned in said bills of lading and/or other documents, nor as to any contract made by the endorser of this draft, or by consignor."

### No Par Value Stock

Stock that has no designated par value. (See Without Par Value.)

### No Protest

It is customary banking practice to protest all checks over \$10 in amount when payment is refused unless instructions are given to the contrary. Most checks and some drafts and notes are accompanied by the instructions "No Protest" when sent or deposited for collection. When this is desired it is the usual practice to attach a "No Protest" ticket to the item in order to indicate to the collecting bank or agent that it is not to be protested for non-payment.

The reason for not protesting checks or other items of \$10 or less, is that the expenses of protesting are not warranted, where the amount involved is so small. Messengers assigned to collecting items carrying "No Protest" instructions should remove or erase them before presentation is made, in order to circumvent the possibility of non-payment. If the drawee is informed in advance of payment that an item drawn on him is not to be protested, he might take advantage of the knowledge, and for technical rea-

sons refuse payment. (See Notarial Protest Certificate.)

### No Protest Ticket

See No Protest.

### Normal Crops

See Crop Reports.

### Nostro Accounts

A term used among foreign exchange bookkeepers. A bank or other institution in this country having balances deposited with correspondent banks in foreign countries, refers to such accounts as "Nostro Accounts" meaning "our accounts." Nostro accounts are kept in foreign currencies, *i. e.*, the *Money of Account* (q. v.) of the country in which the funds are kept, with the equivalent dollar value noted in an adjacent column. (See Vostro Accounts.)

### Not a Delivery

See Good Delivery.

### Notarial Protest Certificate

When a check, draft, or bill of exchange is dishonored, *i. e.*, payment or acceptance is refused, the holder should have it protested before a notary public. The notary public again presents it to the drawee, and if payment is still refused a notarial protest certificate is prepared, together with a separate notice of protest to each of the indorsers. The notarial protest certificate is legal evidence of presentation and refusal to pay by the drawee or maker, and is a legal measure for the purpose of holding the indorsers liable on account of the item dishonored for payment by the maker. Such a certificate is legal evidence of presentation and refusal to pay, and makes unnecessary further proof in case of an action at law. The following is the form of a Notarial Protest Certificate:

UNITED STATES OF AMERICA  
STATE OF NEW YORK   SS:  
COUNTY OF NEW YORK

On the.....day of..... in the year  
....., at the request of the.....  
Bank, of the City of New York, I, the  
subscriber, a Notary Public of the State  
of New York, duly commissioned and  
sworn, did present the original Check,  
Note, Draft or Bill of Exchange here-  
to annexed to (*name of drawee or mak-  
er*), in the City of New York, (being  
the place where the said Check, Note,



Draft or Bill of Exchange is payable) and demanded payment thereof, which was refused (*reason for non-payment*).

Whereupon, I, the said Notary, at the request aforesaid, did PROTEST, and by these presents do publicly and solemnly PROTEST, as well against the Drawers and Indorsers of said Check, Note, Draft or Bill of Exchange, as against all others whom it doth or may concern, for exchange, re-exchange and all costs, damages, and interest already incurred, and to be hereafter incurred for want of payment of said Check, Note, Draft or Bill of Exchange.

IN testimony whereof, I have hereunto set my hand and affixed my seal at the City of New York, aforesaid.

.....  
 Notary Public  
 For New York County

(Seal)

*Indorsement on Notarial Protest Certificate.*

Please give notice of the within protest to all parties to the annexed..... as soon as you receive this.

(Notice to each party to the item)

Date

Please take notice that a (check, draft, note, or bill of exchange) made by

.....  
 for \$.....

dated .....

payable .....

made }  
 endorsed } by you is protested for

non-payment and that the holders look to you for the payment thereof.

Your obedient servant,

.....  
 Notary Public

To .....

(See No Protest).

**Notary Public**

A person commissioned by a state and authorized to administer oaths, to take acknowledgments and depositions, and to protest negotiable instruments for non-payment or non-acceptance. The legal advantages of an instrument sworn to before a notary are: (1) admission into court as evidence without further proof of execution; (2) admissibility as a court record.

**Note**

A promise to pay as distinguished from an order to pay, such as a draft or check. Formally defined, a note is a written promise of the maker to pay a certain sum of money to the person named as payee, on demand or at a fixed or determinable future date. The Federal Reserve Board defines a promissory note "as an unconditional promise, in writing, signed by the maker, to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to order or to bearer. (Regulation A, Series of 1920, A, 4.)

Consideration is always presumed to exist in the case of notes and bills of exchange unless it can be positively shown that it does not. Notes may be issued by individuals, partnerships, corporations, institutions, and Governments. National bank notes, Federal Reserve notes, Federal Reserve bank notes, and United States notes, are forms of promises to pay on demand without interest, and furnish a part of the circulating monetary medium. A note may be drawn without interest, but if drawn with interest with the rate omitted, the maximum legal rate of the state in which it is made, applies.

One of the essential characteristics of notes is that they are ordinarily negotiable, *i. e.*, title can be transferred from one person to another. Negotiation is achieved either (1) by delivery, *i. e.*, handing it from one person to another when the note is made payable "to bearer" or where the indorsement is "in blank", or (2) by indorsement and delivery when it is made payable "to order". A note may be non-negotiable if the words "bearer" or "order" are omitted from its face.

Notes should be presented for payment at the place named. If no place is indicated, presentment should be made at the maker's usual place of business or residence during business hours. The note should be presented on the due date in order to hold the indorsers (if any) liable, and in case of refusal to pay, protest should be made. The liability of the maker is in no wise voided by postponement of presentation beyond the due date, and the note may be protested for non-payment even if past due. Notes which have become lost or stolen are still collectible.

Formerly three *Days of Grace* (*q. v.*) were allowed to persons obligated to pay notes, *i. e.*, three days beyond the indicated maturity date. Under the *Negotiable Instruments Law* (*q. v.*) this practice has been abolished in all the states so that an in-

strument matures on the date which it fixes. Classified by method of determining maturity, notes are of two forms, payable upon a specified date, or at a certain number of days after date. The first is known as a "fixed date", and the second as a "days after date" note. The first reads: "On July 1, 1925, I (We) promise to pay", etc., while the second reads: "Sixty days after date, I (We) promise to pay," etc. In the second case the note must be "timed" in order to determine the maturity date, and in so timing, the exact number of days must be counted. For example, if a note is dated July 20, and runs for 60 days, it becomes due on September 18. If that date happens to be a Sunday or holiday, then the note is due on the next business day.

Banks frequently furnish customers blank forms for notes, and usually insist upon their own forms to evidence loans extended to their borrowers. The following is a form of a promissory note without collateral where the payee is a bank:

\$..... New York,.....19.....  
 .....months (days) after date for  
 value received I (we) promise to pay to  
 the.....Bank, or order,  
 the sum of.....Dollars,  
 with interest at.....per centum per annum.

It is further agreed that if the undersigned shall become insolvent or make a general assignment for the benefit of creditors, or file a voluntary petition in bankruptcy, or if a petition in bankruptcy shall be filed against the undersigned, or a receiver shall be appointed over the property or assets, or any thereof, of the undersigned, then this note and all other present or future demands of any and all kind against the undersigned, whether created directly or acquired by assignment, whether absolute or contingent, shall forthwith be due.

Payable at the.....Bank.  
 No..... Due.....  
 .....  
 (Name of maker)

A collateral note ordinarily has the same form as the regular promissory note (above illustrated), together with the following or its equivalent:

The undersigned has deposited with said bank as collateral security for the payment of this and any and every liability or liabilities of the undersigned to the said bank direct or contingent, due or to become due, or which may hereafter be contracted or

existing, the following property (here the specific collateral is described), together with all other securities in the possession of said bank belonging to the undersigned or in which the undersigned has an interest; hereby agreeing to deliver to said bank additional securities to its satisfaction, upon demand of said bank, also hereby giving to said bank a lien for the amount of all said liabilities of the undersigned to said bank upon all property or securities which now are or may hereafter be pledged as collateral with said bank by the undersigned, or in the possession of said bank in which the undersigned has an interest, and, also upon any balance of the deposit account of the undersigned with said bank. On the non-performance of this promise, or upon the non-payment of any liabilities above mentioned, or upon the failure of the undersigned forthwith to furnish satisfactory additional securities on demand, at the option of said bank, this obligation shall become immediately due and payable, and then and in every such case full power and authority are hereby given to said bank to sell, assign and deliver the whole of said securities or any part thereof or any substitutes therefor or any additions thereto through any stock exchange or broker or at private sale, without either advertisement or notice, the same being hereby expressly waived or said bank itself may purchase the same or any part thereof free from any right of redemption on the part of the undersigned, which is hereby expressly waived and released. In case of sale for any cause, after deducting all costs and expenses of every kind, said bank may apply the residue of the proceeds of such sale, as it shall deem proper, toward the payment of any one or more or all of the liabilities of the undersigned to said bank, whether due or not due, returning the overplus if any, to the undersigned, who agree to be and remain liable to said bank for any and every deficiency after application as aforesaid, upon this and all other of said liabilities; the undersigned hereby authorizing the transfer or assignment of said securities and property to the purchaser thereof.

And I hereby authorize any attorney-at-law to appear in any court of record in the United States, after the above obligation becomes due and waive the issuing and service of process and confess a judgment against me in favor of the.....Bank of....., or any holder of this note, for the amount then appearing due to-



gether with the costs of suit, and thereupon to release all errors and waive all right of appeal and stay of execution.

This term is sometimes applied to short-term bonds whether corporate or civil issues, and especially if unsecured, *e. g.*, United States Victory Notes. (See General Loan and Collateral Agreement, Joint Note, Joint and Several Note, Negotiable Instruments, Negotiable Instruments Law, National Bank Note.)

### Note Brokers

Dealers, or commercial paper houses, whose business it is to act as middlemen between the issuers of commercial paper and banks, insurance companies, and private investors, who furnish the market for their sale. Note brokerage firms are usually partnerships having ample capital resources, capital and valuable bank connections, to enable them to secure an adequate supply of funds to finance their transactions. Commercial paper borrowing is a means of raising funds temporarily for financing seasonal inventory requirements. Note brokers derive their profit by buying notes from the makers at one rate of interest and selling them at another, although much of the business is done on the basis of a commission of  $\frac{1}{4}$  of 1 per cent., which is charged the borrower.

The paper marketed by note brokers is varied in character, and includes single name paper, double name trade paper, collateral notes and trade and bank acceptances. Fully one-half of the paper dealt in by note brokers is single name paper of well-known commercial houses.

A large portion of the paper is sold upon a ten days' option to give the proposed buyer an opportunity to investigate the standing of the maker. At the end of the option period it may be retained or returned. Note brokerage is a specialized machinery for facilitating commercial borrowing by prime credit risks in the open market. (See Commercial Paper.)

### Note Liability

The liability of a National bank for its outstanding circulating notes; also the liability of a Federal Reserve bank for its combined Federal Reserve notes and Federal Reserve bank notes.

### Notes Payable

Aggregate of notes, acceptances, etc., held by others representing sums of money to be

paid at a future time, and constituting a liability of a business. From an accounting point of view, the aggregate of notes contracted to be paid, also known as *Bills Payable*, and due to others.

### Notes Receivable

Aggregate of notes held against others and constituting one of the assets of a business. From an accounting point of view, a controlling account in the general ledger, also known as *Bills Receivable*, to indicate the total of notes, drafts, and acceptances due from trade customers.

### Note Teller

Among small banks, an employee sometimes also known as the third teller, who supervises the collection of notes and drafts at maturity and such demand items (checks and drafts) and special collection items, as are not drawn on members of the clearing house association and which must be collected by messenger.

Among larger banks, the note teller's department is usually a miscellaneous department of the bank, since it not only supervises the collection of non-clearing house checks, but disposes of miscellaneous types of transactions not important enough to be departmentized,

### Note Tickler

See Tickler.

### Notice of Dishonor

See Notarial Protest Certificate.

### Notice of Intention

In most states, incorporators desiring to organize a state bank must sign a *Notice of Intention* to organize, setting forth their names, title of the proposed corporation, amount of its capital stock, and location. This notice is filed with the state banking department, and a copy must be published in a newspaper in the city of intended location for a certain period in advance of obtaining the charter. Other banks in the location must also be served with a copy of such intention. The foregoing is the practice in New York State.

### Notice of Protest

See Notarial Protest Certificate.

**Not Subject to Call**

A term used in connection with a bond or note which cannot be retired prior to the compulsory maturity. Such bonds or notes are usually designated *non-callable*. (See Callable Bonds, Non-Callable Bonds.)

**Not Sufficient Funds**

See Insufficient Funds.

**Numerical Transit System**

A system of abbreviations, devised by the clearing house section of the American Bankers Association, for the purpose of simplifying transit work, *i. e.*, to aid in the collection, identification, and tracing of checks, drafts, and notes, forwarded to out-of-town points for collection and credit. The purpose of the system is to save time and labor. Previous to the adoption of this system it was necessary to identify each check (or other item) listed on outgoing transit letters by writing thereon the name and location of the drawee bank. Under the numerical transit system numbers replace names. Every bank in the United States has a distinctive number, made up of two parts: (1) a prefix which designates the city or state in which the bank is located, and (2) a second figure which designates the individual bank. Thus the transit number 1-8 indicates the National City Bank of New York; 2-3 the Continental and Commercial National Bank of Chicago; 50-22 the National Bank of Commerce of Rochester, New York; 53-137 the Holyoke National Bank of Holyoke, Massachusetts; and 56-1 the Northern National Bank of Toledo, Ohio.

Numbers from one to forty-nine, inclusive, are used to designate central reserve and reserve cities, each city being given a distinctive number to be used as a prefix in its numeral title. The clearing house numbers in each of these cities are used as the second figure of the transit number for each of the clearing house members of such cities, and additional numbers are provided for banks not clearing house members. Numbers from fifty to ninety-nine, inclusive, are used to designate states. State numbers are used as a prefix for numbering banks which are located outside the forty-nine cities already provided for. In numbering the reserve cities, Brooklyn is included with New York City; Kansas City, Kans., with Kansas City, Mo., and South Omaha with Omaha. Since there are fifty reserve cities two numbers were left unused, and were given to Buffalo and Memphis.

The numbers of the different cities and states are as follows:

CITIES

1. New York City.
2. Chicago, Ill.
3. Philadelphia, Pa.
4. St. Louis, Mo.
5. Boston, Mass.
6. Cleveland, O.
7. Baltimore, Md.
8. Pittsburgh, Pa.
9. Detroit, Mich.
10. Buffalo, N. Y.
11. San Francisco, Cal.
12. Milwaukee, Wis.
13. Cincinnati, O.
14. New Orleans, La.
15. Washington, D. C.
16. Los Angeles, Cal.
17. Minneapolis, Minn.
18. Kansas City, Mo.
19. Seattle, Wash.
20. Indianapolis, Ind.
21. Louisville, Ky.
22. St. Paul, Minn.
23. Denver, Colo.
24. Portland, Ore.
25. Columbus, O.
26. Memphis, Tenn.
27. Omaha, Neb.
28. Spokane, Wash.
29. Albany, N. Y.
30. San Antonio, Tex.
31. Salt Lake City, Utah.
32. Dallas, Tex.
33. Des Moines, Ia.
34. Tacoma, Wash.
35. Houston, Tex.
36. St. Joseph, Mo.
37. Ft. Worth, Texas.
38. Savannah, Ga.
39. Oklahoma City, Okla.
40. Wichita, Kans.
41. Sioux City, Ida.
42. Pueblo, Colo.
43. Lincoln, Neb.
44. Topeka, Kans.
45. Dubuque, Ia.
46. Galveston, Tex.
47. Cedar Rapids, Ia.
48. Waco, Tex.
49. Muskogee, Okla.

STATES

- |                   |                  |
|-------------------|------------------|
| 50. New York      | 55. New Jersey   |
| 51. Connecticut   | 56. Ohio         |
| 52. Maine         | 57. Rhode Island |
| 53. Massachusetts | 58. Vermont      |
| 54. New Hampshire | 59.              |



- |                  |                 |                |                |
|------------------|-----------------|----------------|----------------|
| 60. Pennsylvania | 77. N. Dakota   | 94. Nevada     | 97. Utah       |
| 61. Alabama      | 78. S. Dakota   | 95. New Mexico | 98. Washington |
| 62. Delaware     | 79. Wisconsin   | 96. Oregon     | 99. Wyoming    |
| 63. Florida      | 80. Missouri    |                |                |
| 64. Georgia      | 81. Arkansas    |                |                |
| 65. Maryland     | 82. Colorado    |                |                |
| 66. N. Carolina  | 83. Kansas      |                |                |
| 67. S. Carolina  | 84. Louisiana   |                |                |
| 68. Virginia     | 85. Mississippi |                |                |
| 69. W. Virginia  | 86. Oklahoma    |                |                |
| 70. Illinois     | 87. Tennessee   |                |                |
| 71. Indiana      | 88. Texas       |                |                |
| 72. Iowa         | 89.             |                |                |
| 73. Kentucky     | 90. California  |                |                |
| 74. Michigan     | 91. Arizona     |                |                |
| 75. Minnesota    | 92. Idaho       |                |                |
| 76. Nebraska     | 93. Montana     |                |                |

For further details see "Key to the Numerical System of the American Bankers' Association", Rand-McNally Bankers' Directory. (See Transit Department).

### **Numismatics**

The science which treats of coins and medals, especially rare and old coins of all nations.

### **Nuncupative Will**

See Will.

## O

### Oats Pit

See Pit.

### Obligation

A general term for all classes of indebtedness, the fundamental idea being that the debtor is bound to pay and that the creditor has legal power to compel payment. Frequently, when one business is absorbed by another, the latter is said to assume the former's obligations. Bonds are frequently referred to in this country as obligations. In France, the term *obligation* is the equivalent of our *bond*.

The revised statutes of the United States define obligation to mean "all bonds, certificates of indebtedness, national bank currency, coupons, United States notes, Treasury notes, gold certificates, silver certificates, fractional notes, certificates of deposit, bills, checks or drafts for money, drawn by or upon authorized officers of the United States, stamps and other representatives of value, of whatever denomination, which have been or may be issued under any Act of Congress."

A direct obligation is an obligation of the original maker of a loan contract. For instance, a note is a direct obligation of the maker and an indirect obligation of the indorser.

A general obligation is one in which the debtor's relation to the creditor is the same as a general creditor's relation to the debtor. In other words, a general obligation is an unsecured one, and subject to prior claims, *e. g.*, preferential claims, (wages, taxes, mechanics' liens), and secured claims (mortgages, mortgage bonds and notes payable secured by a specific pledge of collateral). The term general obligation as applied to municipal bonds indicates those which are a lien upon the revenues of the entire issuing jurisdiction, and not merely upon a part of the jurisdiction or of its revenues.

### Obligator

Same as *Obligor* (q. v.).

### Obligatory Maturity

The absolute, final, or compulsory maturity of a note or bond, as distinguished from the optional maturity or prior redemption date.

Bonds which by their terms may be retired at the option of the obligor before the obligatory maturity are known as callable, optional, or (less accurately) redeemable bonds.

### Obligee

A creditor; one who can enforce payment of a debt, *e. g.*, a note or bond holder.

### Obligor

A debtor; a person, firm, or corporation which is bound to perform an obligation, such as payment of a note or bond. A corporation which has issued bonds is an obligor corporation. The United States Government is obligor or the debtor organization in the case of United States Government bonds.

### Obsolete Securities

Bonds which have matured and have been retired and cancelled; stocks or bonds of abandoned, or defunct corporations, or which have temporarily suspended operations without actually dissolving.

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### Ocean Bill of Lading

See Bill of Lading.

### Odd Lot

A term to designate a smaller unit of trade than the standard unit of trade, known as a *board* or *full lot*, which on the New York Stock Exchange is 100 shares of stock, or \$1,000 par value in bonds. Any transaction involving from 1 to 99 shares is called an odd, fractional, or broken lot. Odd lot orders are executed by *Odd Lot Brokers* (q. v.).

On the Consolidated Stock Exchange of New York, the standard unit of trade is ten shares. Sales of less than ten shares are odd lot transactions on this exchange.

### Odd Lot Brokers

Members of the Stock Exchange, about 50 in number, who specialize in executing orders in fractional or odd lots for regular commission brokers. The business of odd



lot brokers is buying from or selling to commission brokers odd lots of stocks or bonds and then piecing these small lots into 100 share certificates, or \$1,000 par value in bonds, or in splitting up 100 share certificates, etc.

Regular commission brokers do not transact an odd lot business; instead, they turn over all odd lot orders to the odd lot brokers. Obviously, the outsider has no contact with the odd lot broker who executes orders only for regular commission brokers. Odd lot dealers classify stocks into two classes known as "eighth" stocks and "quarter" stocks. An odd lot order in an eighth stock at market is executed at  $\frac{1}{8}$  point from the next full lot sale, or if the client desires, at the bid or offered price. Orders in "quarter" stocks are executed at  $\frac{1}{4}$  point from the next full lot sale, or at  $\frac{1}{8}$  point from the bid or offer. The large majority of stocks are "eighth" stocks. The "quarter" stocks are either inactive stocks or those the price of which fluctuates so widely that the added  $\frac{1}{8}$  point is necessary to permit the broker to obtain a proper profit. Odd lot transactions cost  $\frac{1}{8}$  or  $\frac{1}{4}$  point more than full lot transactions, for the reason that the regular commission broker must pay the odd lot broker, as well as charging his own commission.

Odd lot buying assumes large proportions and is estimated at from one-fourth to one-third of the total sales.

### Off

A stock market expression indicating lower prices; prices below yesterday's level. It also denotes "without," *e. g.*, "dividend off" means "without dividend".

### Offer

This term has two meanings:

(1) A bid; a price named at which one is willing to buy.

(2) In Stock Exchange parlance, the term refers to the price at which one is willing to sell. Thus: "The stock is offered at 35; the best bid is 30."

### Offered Down

An expression to indicate that sellers are offering a security (or commodity) for sale at a price lower than that of the last transaction or latest quotation.

### Offered Firm

The offer of a security (or commodity) at a specified price, the seller giving the prospective buyer a certain time for its accept-

ance. Thus, a bond may be offered firm at 95 and accrued interest, for three days. Offered firm differs from *Offered Subject to Sale*, or *Offered Subject to Prior Sale*, in that in the latter the offer is good only in case the securities are not previously sold to the other buyers. A dealer who offers securities subject to prior sale is not liable in case he refuses to sell to a party who bids for the offering after they have been sold elsewhere.

When one makes a bid at a definite price to hold good for a certain time, it is known as a firm bid.

### Offering Book (List)

A book or list maintained by a dealer in bonds, stocks, commercial paper, etc., which contains a description of each security offered for sale, the price included. (See Offering Sheet.)

### Offerings

A term to denote bonds, stocks, notes, commercial paper, etc., offered for sale to customers.

### Offering Sheet

A list of securities offered for sale by an investment banker, or of commercial paper offered by a note broker. Large banks which offer participation loans to their bank customers also prepare offering sheets to show the names of loans in which they offer participations. In the investment business an offering sheet differs from a bond circular in that the former contains a brief description of a number of issues, whereas the latter gives a detailed description of a single issue. The offering sheet usually closes with a statement such as the following: We offer for subscription, subject to prior sale or allotment (such of these bonds as may not be taken up by others through the exercise of rights) when, as and if issued, and received by us, and subject to the approval of counsel. (See Bond Circular.)

### Office Paper

Another name for finance bills. (See Finance Bill.)

### Officers

See Bank Officers.

### Official List

A short title for the full title, "The Stock Exchange Daily Official List", which is the

London counterpart of the New York Stock Exchange List of security quotations. It is published twice daily with a weekly edition which is a summary of the week's business. (See London Stock Exchange.)

**Official Listing Notice**

A formal notice to a corporation which has applied to the Stock Exchange Committee on Stock List for permission to list its securities on the stock exchange, that the application has been granted.

**Oil**

The principal fuel for internal combustion engines, Diesel engines, and an important fuel for steam engines. It is universally used as a lubricant. The value of oil products is now greater than that of coal.

Production of crude oil in the United States and imports from other countries since 1918, are given in the following table:

Crude Oil Production and Imports in Barrels of 42 gallons each.

	(000 omitted)	
	U. S. Production	Imports
1918 .....	355,928	36,576
1919 .....	370,508	52,822
1920 .....	439,647	106,175
1921 .....	469,546	125,307
1922 .....	551,197	124,340
1923 .....	*663,636	*73,576

(\* )11 months.

The chief oil fields in the United States are Mid-Continent (Oklahoma), Pennsylvania, Gulf Coast, California, and Wyoming. (See Oil Securities.)

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**Oil Securities**

Stocks and bonds of oil producing and refining companies. The oil industry is becoming less speculative, and is now one of the strongest organized groups of industry, dominated by relatively few powerful interests. These companies are highly integrated, and normally control all stages of the industry from prospecting and drilling wells to marketing gasoline. A completely integrated oil company combines at least four essential divisions, viz., production, refining, transportation, and distribution (in many cases control of retail gasoline stations).

In considering the purchase of oil securities, the investor should distinguish between three groups, viz.: (1) undeveloped proper-

ties consisting of leases and option lands, *i. e.*, unproved territory; (2) properties which are producing but are not profitable, and (3) properties which are both producing and profitable.

Oil securities embody many of the same characteristics as *Mining Securities* (q. v.).

**Old Lady of Threadneedle Street**

A nickname for the *Bank of England* (q. v.) the main entrance of which is on Threadneedle Street.

**Old Line Rails**

An expression used in reference to the stocks of the well-known standard railroad corporations of the United States which have a reputation for good management, as shown by the high standard of maintenance of their properties, conservative financing, large earnings and uninterrupted dividend record over a long period of years.

**On Account**

A part payment on the purchase price is a payment on account.

**On a Scale**

See Averaging, Scaling.

**One-Day Loan**

See Day Loans.

**One-Man Company**

A term used to describe a corporation which is dominated by one person, either by ownership of the majority of the stock, or by force of his personality and influence in the trade at large. Among credit men such a company is not considered as good a credit risk as one in which the control is more widely distributed, for the reason that the death of the one man in control may embarrass the future of the concern by leaving it destitute of high grade managerial ability.

**One Name Paper**

See Single Name Paper.

**Open**

See Open Account, Open Credit, Opening, Open Market Purchases, Open Market Rates, Open Mortgage, Open Order.

**Open Account**

When purchases are made and charged to the buyer's account without being evidenced by a note and for which monthly or other



periodical settlements are arranged, the buyer is said to be buying on open account and the seller extending open credit. Whenever open accounts are established there is, or should be, a definite promise of settlement, *e. g.*, payment by the tenth of the succeeding month.

Open book accounts, known also as *Accounts Receivable*, are not regarded as good assets as notes or bills receivable, since the latter are prima facie evidences of debt and open accounts are not. The amount of credit extended on open account is usually limited, the maximum being known as the line of credit. (See Assigned Book Accounts.)

### Open Book Account

See Open Account.

### Open Credit

See Credit, Open Account.

### Open End Bonds

Mortgage bonds, usually those of a railroad company, in which the amount of bonds issuable under the mortgage is left indefinite, the mortgage permitting the subsequent issue of additional bonds up to a certain limit, usually based upon so many bonds per mile of line. Open end bonds are more familiarly known as open mortgage bonds and are to be distinguished from closed mortgage bonds. (See Closed Mortgage, Open Mortgage.)

### Opening

A term which refers to the hour at which trading begins on an organized exchange. The opening of the New York Stock Exchange is at 10 A. M.

### Opening Price

The prices at which the first sale for the day of any security is made. Opening prices are usually quoted in the daily newspapers which publish stock quotations, together with the high, low, and close.

### Open Market

A broad and freely competitive market; a market which is open to many buyers and sellers, and in which prices (whether commodities, securities, or money rates) are determined by such competition. Most of the organized markets, *e. g.*, New York Stock Exchange, are not open markets, since although trading is engaged in by many buyers and sellers and prices are determined by free competition, trading is limited to members of

the exchange. (See Market, Open Market Purchases.)

### Open Market Operations

See Open Market Purchases.

### Open Market Purchases

As contemplated under section 14 of the Federal Reserve Act, open market operations of the Federal Reserve banks consist of the following: (1) purchase and sale of bills of exchange, trade and bankers' acceptances, arising out of commercial transactions; (2) purchase and sale of warrants of any state, county, municipality, or district in continental United States, having not more than six months to run, provided they are general obligations of the issuing jurisdiction, created in anticipation of tax collections or other assured revenues; (3) purchase and sale of cable transfers dealing in gold coin and bullion, and (4) establishment of open accounts abroad.

The purposes of open market operations are five-fold: (1) employment of funds of Federal Reserve banks when rediscount facilities are actively availed of; (2) to create a market for prime commercial paper with or without the member banks' indorsements; (3) to exercise some measure of control over interest rates; (4) to exercise some measure of control over foreign exchange rates and international gold movements, and (5) to increase the use of "dollar exchange" in world commerce, and to aid American banks in the financing of foreign trade.

It must not be supposed, of course, that the open market is a particular location set aside for the transaction of business in prime commercial instruments. The open market consists of the Federal Reserve banks, commercial banks, brokers, acceptance and discount houses which, together with their customers, purchase and sell such paper as is eligible for open market operations, as defined by section 14 of the Federal Reserve Act, and Federal Reserve Board Regulation B. (See Federal Reserve Act—section 14, and Federal Reserve Board Regulations—Regulation B.)

### Open Market Rates

Money rates established for different classes of loans in the open market, as distinguished from the Federal Reserve rates of rediscount which are fixed by the various Federal Reserve banks with approval of the Federal Reserve Board.

Open market rates for paper which is eligible for open market operations of the Federal Reserve banks are lower than for the rediscount rates of these institutions. This is also true of the central banks of Europe. (See Money Market, Open Market Purchases.)

### Open Mortgage

One which does not exclude the possibility of incurring further debt thereunder, as distinguished from a *Closed Mortgage* (q. v.). In an open mortgage, the maximum amount of debt in bonds or notes, authorized by its terms, has not yet been reached. (See Open End Bonds.)

### Open Order

See Orders.

### Operating Company

Any company which performs actual industrial or merchandising operations; one that conducts business operations as distinguished from a controlling or holding company, which does not itself operate, but controls the policies of its subsidiary operating companies through stock ownership. Operating companies are underlying or subsidiary companies, the majority of the stock of which presumably is owned by a *Controlling Company* (q. v.).

### Operating Expenses

The costs of conducting business exclusive of what are designated as fixed charges. In an industrial concern, operating expenses include manufacturing (factory) costs, selling and general administrative expenses, except taxes, insurance and interest on funded debt. In a merchandising concern operating expenses are determined in the same way except that the cost of merchandise sold is substituted for manufacturing costs. In a railroad or public utility corporation, operating expenses consist of all expenses, except interest on bonds, rentals and taxes. The Interstate Commerce Commission defines railroad operating expenses to consist of five groups of costs: (1) maintenance of ways and structures; (2) maintenance of equipment; (3) conducting transportation; (4) traffic expenses; and (5) general expenses.

### Operating Ratio

A term used especially in railroad finance to denote the ratio of operating expenses to gross revenue. Due to the fact that the ratio of bonds to stock differs widely among various railroad companies, thus cre-

ating wide differences in interest requirements, it is impossible to fix an ideal operating ratio applicable to all railroads. Broadly speaking, however, if a railroad is to show profits, and if fixed charges absorb 25 per cent. of gross revenues (which is normal), the operating ratio should not exceed 65 to 70 per cent.

### Operators

A term which refers to persons who speculate more or less actively in securities, either for their own accounts or as agents for a principal. The term especially implies those who treat speculation professionally, and whose dealings have considerable influence upon price fluctuations. Pratt estimates that there are 75,000 persons who, on the average, continuously have speculative commitments in Wall Street securities.\*

### Option

A general term to denote the privilege of buying or selling, or a combination of buying and selling specified securities or commodities in given amount and price at the expiration of, or within a given period, the details being fixed by the execution of a contract. The most customary options are those to buy or sell securities, cotton, grain, commercial paper, foreign exchange, but option contracts may be made for almost anything. Rights under an option are sometimes sufficiently valuable to command a premium. (See Puts and Calls.)

On the New York Stock Exchange one of the methods of trading is by means of buyers' and sellers' options. (See Methods of Trading.)

### Optional Bonds

Bonds which the obligor (issuer) retains the privilege of retiring at a date prior to the specified obligatory maturity, if it so elects. Thus, a bond may be due in 20 years, but according to its terms, subject to redemption after five years. Such an optional bond is described at a 5/20. Optional bonds are synonymous with callable or redeemable bonds. (See Callable Bonds.)

### Option Day

The day on which an option, *e. g.*, a "put" or a "call" must be declared.

### Option Period

The duration of an option as specified in the option contract during which the person

\* Work of Wall Street, page 72.



taking the option has the privilege of deciding whether or not he will buy or sell, as the case may be. Buyers' and sellers' options on the New York Stock Exchange may be not less than four, or more than sixty days. Note brokerage houses in offering commercial paper to banks on option usually allow ten days for deciding whether such paper will be purchased or not.

### Order Instruments

See Pay to Order.

### Orders

This term has two meanings:

(1) Written instructions to pay money, such as checks, drafts, bills of exchange, money orders, etc.

(2) Instructions to buy or sell securities (or commodities, *e. g.*, cotton, wheat, etc.) to a broker. Orders may be classified from several different standpoints. They may be to buy or to sell and may originate by letter, telegram, telephone, or personal instructions.

Orders may also be classified as to price and duration. Thus, limited orders name a specific price at which they are to be executed, while market orders are to be executed at the market in order to insure immediate execution. Such orders are executed at the most advantageous price prevailing in the market at the time they are given. As to duration, orders may be for the day only (not confirmed), open or good till cancelled (good till countermanded), more familiarly known as G T C orders (confirmed), and good this week orders (GTW).

Orders may be cancelled at any time before execution and customers are entitled to receive confirmation of all orders and cancellation thereof, except day orders, as well as confirmation of executions. (See Matched Orders, Stop Orders.)

### Ordinary Receipts

An accounting term of the United States Treasury Department which covers receipts from customs, internal revenue (including income tax), direct sales taxes, sales of public lands, and "miscellaneous", but which does not include receipts from loans, premiums, or Treasury notes, or revenues of the Post Office Department.

### Ordinary Shares

The English equivalent of common stock in America. But in England, ordinary shares are often divided into two classes, preferred shares and deferred shares. (See Deferred Shares, Preference Shares.)

### Ore

A money of Norway, Sweden, Iceland, and Denmark. (See Foreign Moneys—table 2.)

### Organization Certificate

Another name for a bank charter. The execution of this instrument is one of the steps requisite to the organization of a bank. Organization certificate forms for National banks are furnished by the Comptroller of the Currency. When filled out they must state the name of the proposed bank, its location, capital, number of shares, and name, address, financial worth of and number of shares to be held by, each stockholder. The organization certificate must be executed in duplicate before a notary; one forwarded to the Comptroller of the Currency, the other retained by the bank.

### Organization of a Bank

See Bank Organization.

### Original Bill

Foreign checks and bills of exchange are issued in duplicate and designated either as original and duplicate, or as first and second of exchange. (See First of Exchange.)

### Out of Line

An expression used by speculators and investors in referring to particular securities, the prices of which are thought to be either above or below that warranted by the general level or average. For example, two stocks may bear the same dividend rate, have the same asset value, the same present and future earning power, and still command widely divergent prices on the market. One may be said to be out of line with the other, or with the general level of securities of like nature.

### Out-of-Town Check

A check drawn on a bank located in another place is an out-of-town item to the bank receiving it for credit to the account of the depositor. Out-of-town checks are collected through the *Federal Reserve Check Collection System* (q. v.), or through correspondent banks with whom arrangements have been made to act as collecting agents therefor. (See Transit Department.)

### Out-of-Town Clearings

See Federal Reserve Check Collection System, Federal Reserve Interdistrict Collection System, Transit Department.

### Out-of-Town Collections

See Collection Items.

### Outside Broker

One not belonging to the principal stock exchange in a particular location. Thus, in New York City an outside broker is one not a member of the New York Stock Exchange.

### Outside Market

A term used to refer to transactions in securities or in money, taking place outside of the New York Stock Exchange. Originally it referred specifically to the New York Curb Market.

### Outsiders

"The general public"; the non-professional speculating element; speculators who are not in possession of the financial statements and other information regarding the corporations in the securities of which they deal in advance of their publication, *i. e.*, in advance of being made available to the public. The outsiders also usually know nothing about the market's *Technical Position* (q. v.). An outsider trades on the basis of external facts, *Fundamental Conditions* (q. v.), etc., rather than upon advance or "inside" information. (See Insider.)

### Outside Securities

Securities not listed or quoted on the principal exchange in the location, *i. e.*, traded on an outside market. Thus, in New York City securities not traded on the New York Stock Exchange are outside securities.

### Outstanding Bonds (Stocks)

The aggregate of bonds (or stocks) which have actually been issued and sold, as distinguished from the amount authorized. The maximum of stock which a corporation is authorized to issue is determined by the certificate of incorporation. Bond issues are authorized among most corporations by a majority of the stockholders. (See Authorized Bonds, Authorized Capital Stock.)

### Overbought

The condition of a market when speculative buying has been heavy in spite of advancing prices and which, because of the latent desire of speculators (the long interest) to take their profits, and the probable temporary elimination of the short interest, leaves it in a weak technical position, susceptible to declining prices through profit taking and probable renewed short selling.

### Overcapitalization

A condition which exists in a corporation when the value of its net assets is less than the par value of its shares. If shares were fully paid for when issued and property values subsequently kept intact, over-capitalization would not occur. It has always been held among courts that capital stock should not exceed the market value of a corporation's net assets, but among financiers and accountants, this principle is not regarded as altogether sound or practicable. From the point of view of the latter, over-capitalization does not exist until and unless the capital stock outstanding is so great that the corporation is unable to earn a reasonable and ordinary return upon them. In other words, the test of proper capitalization is not asset value, but the earning power of the assets.

Over-capitalization in the case of a railroad or other public utility is likely to result in a receivership and reorganization by which a scaling down of securities bearing a fixed rate of interest must be effected. (See Watered Stock.)

### Over-Certification

The practice of certifying a check by a bank for an amount greater than the balance credited to the account of the drawer. Over-certification was formerly a customary proceeding among banks in New York City which specialized in furnishing call funds to stock exchange brokers. The practice is now prohibited with penalties by Section 5208 of the Revised Statutes (Federal Reserve Act amendment, September 26, 1918), which follows:

"It shall be unlawful for any officer, director, agent, or employee of any Federal Reserve bank, or of any member bank as defined in the Act of December 23, 1913, known as the Federal Reserve Act, to certify any check drawn upon such Federal Reserve bank or member bank, unless the person, firm or corporation drawing the check has on deposit with such Federal Reserve bank or member bank, at the times such check is certified, an amount of money not less than the amount specified in such check. Any check so certified by a duly authorized officer, director, agent, or employee shall be a good and valid obligation against such Federal Reserve bank or member bank."

In effect over-certification is tantamount to a temporary loan and bridges the gap be-



tween the time a broker buys securities for customers, and their delivery—when the collateral becomes available. The law against over-certification is technically evaded by the practice of granting so-called "day loans" or "morning loans". (See Certifications, Day Loans.)

### Overcertified

See Over-Certification.

### Overcertify

See Over-Certification.

### Overcheck

To overdraw one's account. (See Overdrafts.)

### Over-Commitment

To make contracts involving financial responsibility in excess of the amount of one's capital or credit; for example, to buy securities on a thin margin; similar to *Overextension* (q. v.).

### Overdrafts

An account appearing upon the general ledger and financial statement of a bank to indicate the aggregate amount by which depositors have overdrawn their accounts. From a bookkeeping standpoint, the overdraft occurs when a depositor overchecks, *i. e.*, when not only the credit balance has been exhausted, but a debit balance created.

Overdrafts are equivalent to unsecured loans which occur through the oversight of a customer, or through delay in deposit remittances. Since overdrafts appear as an asset to offset the amount by which depositors' accounts are increased, they obviously increase gross deposits.

Under a ruling of the Comptroller of the Currency, overdrafts are forbidden among National banks. It is consequently a duty of ledger clerks to detect overdrafts and report checks which, if entered, would create overdrafts, to an officer for a decision as to whether the overdraft check should be paid. Most banks refuse to pay such checks, but frequently, as a matter of courtesy and service, the depositor is notified and given opportunity to make good the deficit immediately. This obviates the necessity of returning the check on account of insufficient or no funds and perhaps having it protested. In such cases, the check is temporarily held awaiting the action of the depositor, who is sent a notice as follows:

"Your account appears to be overdrawn \$..... This notice is sent in the regular course of business in order that the matter may receive your prompt attention in case the overdraft has been caused by a delayed deposit or remittance."

### Overdraw

To draw a check which more than exhausts one's credit balance at a bank, thereby creating a debit balance. (See Overdrafts.)

### Overdue Bills (Notes)

Bills or notes which have not been paid at maturity. When an indorsed note is not paid at maturity it should, unless it contains a waiver of protest, be protested in order to hold the indorsers liable. Bills or notes not paid at maturity are transferred from the *Time Loans* or *Bills Discounted* accounts which should contain only unmatured items, to an account entitled, *Bills Discounted Overdue*. For the disposition of bills long overdue, see *Bad Debts*.

### Overexpansion

A term roughly equivalent to *Inflation* (q. v.). The construction of plant facilities and production of goods in excess of reasonable near-term requirements, and beyond the power of the consuming masses to absorb them. Such overexpansion is made possible only by an overextension of banking credit. (See Business Cycle.)

### Overextension

From the point of view of a lender, credit is overextended when a line out of proportion to the risk's capital rating, moral responsibility, and business ability, is granted. From the point of view of a trader, overextension is a condition of having purchased securities or commodities in excess of an amount justified by his capital and borrowing power and which, in case of declining prices, is apt to lead to losses through inability to furnish proper margin, or otherwise through pressure by creditors. From the standpoint of business, the term refers to expansion of facilities and equipment beyond the immediate or prospective needs of the concern.

### Overextended Accounts

From a broker's standpoint, accounts which are under-margined; from a banker's standpoint, loans which the borrower cannot pay at maturity, thereby requiring renewal.

### Overissue

An issue of stock or bonds by a corporation in excess of the amount authorized. The purpose of a stock registrar is to prevent an overissue. (See Authorized Bonds, Authorized Capital Stock, Stock Registrar.)

### Overlying Mortgage

A mortgage before which another or other mortgages have prior claim upon the company's property. An overlying mortgage is, therefore, not a first mortgage, and overlying bonds are junior lien bonds. Overlying mortgage is a term synonymous with junior mortgage, and an antonym of underlying mortgage (See Junior Mortgage.)

### Overnight Loan

One which is to be paid off the following day.

### Overplus

Practically equivalent to surplus, or balance over all expenses.

### Overs and Shorts

In banking practice, an account in which items that are either over (credits) or short (debits), producing a state of unbalance, are kept in suspense until they can be located and adjusted. The amount of overs and shorts, if any, is entered in daily department proofs, and later consolidated by the general book-keeping or auditing department. This department, by having access to the details of all the transactions of the bank, is in a position to locate differences and adjust them.

### Oversold

The condition of a market when selling, especially short selling, has been in heavy volume at declining prices, placing the market in a technical position to rally through the latent urgency of covering by the short interest.

### Overspeculation

A condition existing when the aggregate of trading in securities or commodities on any exchange is in excess of that needed to furnish a ready market and to keep prices in harmony with actual values.

### Overstayed

A term used to describe a trader who, having a paper profit (an unrealized profit), waits for a larger profit and then because of

a sudden decline in prices, the profit is reduced or cancelled, or even converted into a loss. He is then said to have "overstayed" his market.

### Oversubscription

When the aggregate of subscriptions contracting to buy an issue of securities offered to the public exceeds the amount of the issue, it is said to be oversubscribed. In such cases, subscriptions over \$1,000 in bonds, or say 10 shares of stock, are usually reduced pro rata by the syndicate manager in order to equalize the subscriptions and the amount of the issue, and the larger subscriptions are frequently cut down by a greater percentage than the smaller.

### Over the Counter

An expression which refers to the direct marketing of an issue of securities by the issuing corporation itself, without the intervention of an underwriting syndicate. It also refers to dealings in issues not listed on any stock exchange. Thus, bank stocks are usually dealt in over the counter. (See Unlisted Securities.)

### Over-trading

Trading in securities or commodities on too small a margin, *i. e.*, buying an amount out of proportion to a given capital. To hold securities on too small a margin is as risky as buying unsound securities.

### Overturn

A synonym for *Turnover* (q. v.). Also see *Merchandise Turnover*.

### Ownership Certificates

The Federal Income Tax Law provides for taxing of interest upon nearly all classes of bonds. In order to insure the collection of taxes from this class of income, the Treasury Department requires, for its own information and investigation purposes, that Ownership Certificates be attached to all coupons *except those detached from bonds issued by the United States, States or political subdivisions thereof*, because these are either partially or wholly exempt from taxation.

The bonds of some corporations have been issued with tax-free covenant clauses in which the obligor company agrees to pay the normal tax up to 2 per cent. This expedient has been used to create a better investment

market for the issue because tax exemption is one of the important tests of an ideal investment. The investor knows exactly what his income is from such a bond and is free from worry in calculating what tax is due.

The certificates are forwarded to the Treasury Department by the obligor. The work of paying agents has been considerably increased by the Income Tax Law which requires the attaching of Ownership Certificates to coupons, with the exceptions noted.

Ownership Certificates are in three forms. A white certificate is provided for coupons from bonds of domestic organizations, the taxes on which are to be paid at the source. The yellow certificate is for coupons of domestic organizations, the taxes upon which are not to be paid at the source. The green certificate is for coupons or bonds of foreign countries and corporations, the taxes on which are not permitted to be paid at the source or to assume the normal tax.



## P

### Packing List

A list accompanying a shipment of goods indicating the number of packages and their contents but omitting prices. (See Certificate of Inspection.)

### Paid Checks

Same as *Cancelled Checks* (q. v.).

### Paid Credit

A short title for the full title, "Paid Letter of Credit" Commercial letters of credit are paid in advance only in rare instances, but travelers' letters of credit are usually paid for when issued. (See Letters of Credit, Traveler's Letter of Credit.)

### Paid Up Capital

That part of the subscribed capital stock which has been issued and paid for, the remainder being subject to call and representing uncalled capital. Federal Reserve bank stock, for example, must be subscribed for by member banks in amounts equal to 6 per cent. of the combined capital and surplus of the subscribing bank, but up to the present time only 50 per cent. of the amount subscribed has been called. (See Call.)

### Paid Up Shares (Stock)

Same as *Full-Paid Stock* (q. v.).

### Panic

A sudden, excited, unreasoning collapse of confidence in the ability of banks and creditors generally to meet their obligations. It is primarily a financial (rather than a business) phenomenon, and is immediately traceable to a collapse in the credit structure, usually precipitated by the failure of a conspicuous bank or business house, or a succession of failures without previous warning. This operates as a signal that all banks may not be solvent, and "runs" on banks and demand for cash payments generally are likely to be inaugurated. Hence, banks are the storm centers of panics.

Fundamentally, a panic is a reaction against stringent credit conditions, rising security and commodity prices, difficult collections, finally culminating in a "buyers' strike." It is anticipated by feverish industrial pro-

duction; rising price, wage, and interest levels; expanding bank loans and falling reserves; extreme prosperity; overexpansion of plant facilities; and overextension of credit.

During a panic business men strive to protect their cash position and to maintain financial solvency. There is plenty of goods and collateral but a shortage of currency, and creditors press their debtors for cash payments. But collections are achieved only with great difficulty. For this reason, securities and commodities are thrown on the market for what they will bring in order to raise cash. A panic is usually of short duration, and is followed by a period of liquidation and industrial depression. A panic should be distinguished from *Crisis* (q. v.), *Depression* (q. v.), and *Liquidation* (q. v.).

Provision for *Elastic Currency* (q. v.) in the Federal Reserve Act appears to have solved the panic problem, and this country is now thought to be panic-proof. Through the rediscount process, additional currency can be created with discounted notes as security, and as long as the gold reserve requirements are met, these notes can be injected into the circulating medium. It is significant that no panics have occurred since the Federal Reserve System has been established. Panics of greater or less intensity occurred in 1907, 1903, 1900, 1893, 1873, 1857, 1846, 1837, and 1825. (See Business Cycle.)

### Paper

A general term applied to all short-term evidences of debt not under seal, *i. e.*, negotiable instruments used in borrowing short-term funds, especially funds for commercial purposes. The following classes of paper are frequently referred to, *viz.*: *Agricultural Paper* (q. v.), *Business Paper* (q. v.), *Commercial Paper*, (q. v.), *Commodity Paper*, (q. v.), *Corporation Paper*, *Mercantile Paper*, and *Trade Paper* (q. v.).

### Paper Basis

A term used to indicate that a country does not employ (or no longer employs) the *Gold Standard* (q. v.), and that commodity prices and foreign exchange rates are based upon (usually) depreciated paper money. (See Paper Money.)

## Paper Money

Paper instruments, *e. g.*, gold and silver certificates, and Government and bank notes which serve as substitutes for metallic money and form the principal part of the circulation media. For the principles underlying paper money issues, see *Money*.

The advantages of paper money over metallic money are: (1) greater portability, *i. e.*, convenience in handling; (2) saving of loss from abrasion; (3) economy of time in counting and weighing (gold coins must be weighed to determine extent of abrasion); (4) greater security in case of loss or theft; (5) saving of interest for the amount by which paper money exceeds the metallic money kept in reserve for its redemption; (6) greater cleanliness, since paper money can be frequently reissued.

For a description of different kinds of United States paper money, and legal tender and redemption qualities thereof, see *United States Money*.

## Paper Money Inflation

The issue of paper money in quantities in excess of the value of the metallic or documentary (Government bonds, commercial paper, etc.) reserve behind it. Wherever it is impossible for a Government to redeem its paper currency in standard money on demand, inflation exists. (See *Inflation*.)

## Paper Profits

Unrealized profits; profits not yet taken; profits existing because of a rise in the market price of a security (or commodity) over its purchase price, or decline in the market price below the selling price, if sold short. For instance, if one hundred shares of United States steel have been bought at 80 and the price is currently quoted at 85, a paper profit of 5 points, or \$500 has arisen, but the profit does not become certain until the stock has actually been sold and converted into cash.

## Par

In the original sense, this term means state of equality, or 100 per cent., without premium or discount. The par value of a share of stock is also known as its face or nominal value; the value imprinted or engraved on a bond or stock certificate, and in the case of a bond, the amount at which it will be redeemed. (See *Commercial Parties*, *Mint Par of Exchange*, *Par Value*.)

## Para

A money of Serbia, Turkey, Egypt, and Montenegro. (See *Foreign Moneys*—table 2.)

## Par Clearances

Clearing house checks, *i. e.*, those passing through a local clearing house association are collected at par, no charge being made to the payee or indorser by the collecting bank (which receives the check for deposit), or to the drawer by the bank on which it is drawn.

The term usually refers, however, to out-of-town collections. In this connection laymen generally appear to be confused concerning the meaning of this term. The Federal Reserve Check Collection System provides for compulsory collection of out-of-town checks among its members and clearing members at par. This refers, of course, to the fact that this system provides that all checks be accepted and remitted for by the drawee bank at par. It does not mean that a bank accepting an out-of-town check for deposit and credit may not make a charge. Such a charge, when made, however, is not a collection or exchange charge. It is an interest or discount charge. If a bank accepts for deposit and credit a check drawn on a bank located at a point five days away, the charge which the collecting bank makes is for the loss of interest incurred while the check is in the process of collection. The depositor is not entitled to draw against uncollected funds. He is entitled to interest on the amount from the day of deposit. The charge made by the collecting bank is exactly parallel to the charge made for discounting a note due in five days. (See *Federal Reserve Check Collection System*, *Federal Reserve Interdistrict Collection System*, *Gold Settlement Fund*.)

## Par Collection of Checks

See *Federal Reserve Check Collection System*, *Federal Reserve Interdistrict Collection System*, *Gold Settlement Fund*, *Par Clearances*.

## Parent Company

A variant of the holding company; a corporation which owns sufficient stock in its underlying or subsidiary companies to insure their control. Control may also be reinforced by leasing territorial or patent rights, or both. A parent company may at the same time be an operating company. The Packard Motor Car Company is of this type, be-

ing a manufacturing company and at the same time controlling its subsidiary sales organizations. The United States Steel corporation is a parent company controlling its subsidiary operating companies, *e. g.*, Carnegie Steel Company, Illinois Steel Company, etc., but engaging in no industrial operations of its own.

The income of a parent company is derived from dividends, interest, royalties, rents, and where it is also an operating company, from sales. (See Holding Company, Operating Company.)

### Paris Bourse

The Paris Stock Exchange, the full title of which is, "The Company of the Paris Bank, Exchange, Trade and Finance Brokers." It is the most important continental stock market, ranking, after London, as the largest international stock market of the world. It is a private monopoly, but is under Government control. The membership is limited to seventy (as against 7,000 in London and 1,100 in New York), memberships having sold for as high as \$400,000. The member brokers are appointed through and under the supervision, and finally become members of, the French Department of Finance. They are not permitted to trade for their own account and consequently failures are very rare.

The unit of trading is ten shares. Cash transactions are much more usual than margin transactions, which occur infrequently as compared with stock speculation in America. Dealings also are confined more to capitalists and professional operators than in America. Settlements are made twice a month, similar to the London Stock Exchange practice. The mid-month settlement lasts four days, and the end of the month settlement, five days.

### Parity

Equivalence; a term derived from *par*, meaning the equivalent price for a certain security or currency quoted in one market reduced to another currency after making adjustments for exchange rates, loss of interest and other factors. (See Arbitrage, Commercial Parities, London Equivalent.)

### Par List

Among transit men, a term used to denote the banks throughout the United States which accept and remit to presenting banks at out-of-town points for checks drawn upon themselves at *par*. Member banks of the

Federal Reserve System are automatically placed on the *par* list. Other banks which are willing to accept and remit for checks drawn upon themselves at *par* may be placed upon the *par* list and are known as clearing members. This entitles clearing member banks to the advantage of collecting out-of-town checks through the Federal Reserve Check Collection System, for which no charge is made. The Federal Reserve Board periodically publishes a list of the banks which constitute the *par* list. (See Federal Reserve Check Collection System.)

### Par of Exchange

See Mint Par of Exchange.

### Par Points

Locations (cities and towns) which, with relation to another point, are considered within the *par* area of check collections. No charge need be made a depositor who deposits for credit, checks drawn on banks located at *par* points. For any given location, the local clearing house association usually determines what points are *par* points by designating the area within a certain radius as the *par* area, and the area beyond this boundary, as non-*par* area. In this way, bank members of the Clearing House, are governed by the same procedure, and standardized minimum exchange rates are fixed for all non-*par* points. Observances of clearing house rules fixing exchange charges, is required and penalties are provided for violations. For example, New York City clearing house banks regard all points in the following states as *par* points: Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, and the City of Richmond, Va. Checks received for deposit drawn on points outside this area are subject to exchange charges. (See Domestic Exchange.)

### Partial Payment

Part payments are sometimes permitted to be made upon notes, the amounts being indorsed on the back of the instrument. They are also sometimes permitted on bills of exchange, but are never permitted in the case of checks.

### Partial Payment Plan

A sales plan, adopted especially by investment and odd lot dealers, for permitting small investors to buy bonds and the more conservative classes of stocks, by means of



partial payments. The down payments, or initial deposits, are usually the same as conservative margins required in margin buying. Monthly payments are then required until the full purchase price is paid. Interest is charged for the amount of the unpaid balance. Some dealers permit one share to be bought on this plan, with an initial deposit as low as \$10.00.

The owner of a partial payment account may sell his securities in order to realize a profit which may have accrued on his securities, even though the balance is not yet paid. For this reason, the partial payment plan is closely akin to margin buying. In case of a sudden decline in the price of securities held, the broker is entitled to demand additional payments, though not yet due. (See Margin Buying.)

### Participant

A party—bank, investment house, etc.—which is invited to become, and accepts membership in, a distributing syndicate organized for the purpose of selling an issue of securities, or to which is given a share or partial interest in a loan granted by another bank. (See Participation Loans, Participations.)

### Participating Bonds

Bonds, also known as dividend or profit-sharing bonds, which, in addition to bearing a minimum fixed rate of interest, are entitled to share in the excess profits of the issuing corporation. Participating bonds differ from *Income Bonds* (q. v.), in that while the minimum interest rate is fixed in the former, and is an enforceable obligation, the maximum rate is fixed in the latter, but less being payable if the full amount is not earned, and no rate being enforceable if not earned. The additional return above the minimum fixed rate may be limited by a certain maximum rate based upon sales, net earnings, or price of the product sold, or else the participating bonds may share in the earnings ratably with, and as fully as, the common stock.

Participating bonds are not common. Like *Convertible Bonds* (q. v.), they are investments which combine relative safety with speculative attractiveness. They are sometimes secured, oftentimes being collateral trust bonds, or mortgage certificates.

### Participating Preferred Stock

See Preferred Stock.

### Participation

The portion or share of securities which is allotted each member of a distributing syndicate, known as a participant, by the syndicate managers when an issue of securities is floated by a syndicate. The amount of participation allotted each member depends upon the size of the bank or investment house, the size of the territory served, the ability of the member to dispose of previous allotments, etc.

The interest of each member of a joint account is also known as a participation. (See Joint Account, Syndicate.)

### Participation Certificate

See Participation Loans.

### Participation Loans

Loans made by one bank in which another bank is given a part interest. This is a common practice among many of the larger banks in the money centers, which maintain accounts with country banks, by which the latter are given an investment outlet for their surplus deposits in time and demand loans. This method of investing surplus deposits of bank correspondents is a convenient one for the latter, since the loans can be made and terminated at their option and without inconvenience. Small correspondent banks use this method of investing temporarily idle funds as a substitute for commercial paper. The correspondent bank usually allows the bank in which the deposits are kept to select the names of the paper in which the participation is granted.

Care must be taken not to permit a participation loan which exceeds the participant's legal maximum loan to one borrower. Participation certificates, containing the details of the transaction, are issued to the participant, as evidence of the participation loan.

The following is a typical form of participation certificate:

No..... \$.....

#### CERTIFICATE OF PARTICIPATION issued by

Blank National Bank of New York  
has allotted to.....Bank.....  
in participation of.....  
in a note for \$.....  
made by.....  
dated .....  
with interest at.....% per annum.

### Particular Average

See Average.

### Parties (to an Instrument)

The parties to a check are the drawer, payee, drawee, and indorsers; to a draft or bill of exchange, the drawer, drawee (called acceptor after he accepts it), payee (often the same party as the drawer), and indorsers; to a note, the maker, payee, and indorsers. (See Acceptor, Drawee, Drawer, Indorser, Maker, Payee.)

### Partnership

A form of business organization in which two or more persons (no limit as to the number in the United States) are associated for the purpose of carrying on business or professional activities for private pecuniary gain. It is a contractual relationship in which capital and skill are contributed, and profits or losses divided on an agreed basis. As distinguished from a corporation, no legal proceedings in the way of a charter or franchise from the State are necessary. A partnership and its constituent members are not legally distinct. They are jointly and severally liable for the debts contracted by the partnership and by one another. This form of organization is subject to unlimited liability, each member being personally liable for the debts of the partnership contracted by any other member thereof, and in case of insolvency, members are liable to the full extent of their property. A partnership is automatically dissolved by the death or incapacity of one of its members.

### Par Value

(1) Bonds. The par or face value of a bond is the amount at which the obligor (issuing organization) contracts to redeem the bond at maturity. It is also the basis upon which the cash interest rate is computed. While bonds are usually issued at an interest rate sufficiently attractive to insure their sale approximately at par or at a slight discount, they afterward fluctuate in accordance with the trend of money rates and general business conditions and in the case of corporation bonds, with the earnings of the issuer. Whether a bond commands a premium or is at a discount, the nearer it approaches maturity the nearer the market value approximates the par value, until at the date of maturity, it is worth precisely par, since that is its redemption value. In the United States, bonds are usually issued in denominations of \$1,000, although \$500 and \$100 denominations are not infrequent. \$10,000, and even higher denominations occur in a few issues.

(2) Stocks. The par or face value of

shares of stock is not uniform, although \$100 is by far the most common denomination. Shares may be given any specified par value, *e. g.*, \$50, \$25, \$10, and even smaller denominations sometimes occur. In speculative enterprises, such as in oil and mining industries, the par value of shares is usually small in order to attract a wider market than would be possible if shares were of higher denomination. In many states, shares may be issued without par value. (See Denomination, Par, Without Par Value.)

### Pass a Dividend

When a board of directors omits to declare a regular and expected dividend, it is said to pass the dividend.

### Pass Book

A bank book; a book in which deposits, or deposits and withdrawals, are recorded. Pass books are provided both for commercial and savings accounts. In commercial checking accounts the pass book is merely a memorandum of deposits. It is neither a book of original entry nor a statement of account. The *Deposit Slip* (q. v.) is the original entry and the important record from a legal point of view. The pass book is not a contract, as in the case of a savings bank pass book. Entries should not be considered as absolute receipts admissible as court records, but rather as acknowledgments of receipts of deposits corresponding in amount to the footing of the accompanying deposit slips. It is not necessary to present a pass book when making deposits in a commercial checking account. It is only necessary to fill out a deposit slip, a duplicate being rendered, if desired. The acceptance of a deposit for absolute receipt and credit, except for cash, is usually conditional upon the collection and payment of such deposit. Deposits of checks, in other words, are subject to final payment and therefore to cancellation of credit for such portions as may be returned unpaid.

In order that commercial depositors may understand the purpose of a pass book and the conditions under which deposits are accepted, a notation should be imprinted in the fly-leaf book, such as the following:

This pass book is issued for the convenience of customers and is intended for a record of deposits only. It is not a book of original entry, nor a statement of account. Statements of account will be rendered monthly.

All items, other than money, are subject to cancellation of credit if not paid on

presentation. It must be understood that the liability of the bank is limited to the observance of due diligence in selecting its immediate correspondents for the presentation and collection of items in this city and elsewhere and that the indorsement, "Pay to any bank or banker", or its equivalent, shall not exceed such liability, and this bank will not be responsible for loss of any kind due to the acts of negligence of such correspondents in the selection of sub-agents for presentation and collection, etc., or for loss in or through the mails, or for any failure to present, demand or collect on any Saturday or holiday.

The status of a savings account pass book is legally very different from that issued for a checking account. In savings bank practice, it is used as a voucher or receipt, both for money deposited and withdrawn. It must be presented whenever a deposit or withdrawal is made, and periodically for the credit of interest accumulated on the balance. It is also the evidence of the contract existing between the bank and the depositor. Whenever withdrawals are made the depositor is identified, not solely through the possession of the pass book, but in case he is not personally known to the teller, his signature is compared with that on record. Test questions may also be asked. Among illiterates, many savings banks use the finger-print method of identification.

A savings bank pass book is not negotiable, but may be assigned for the purpose of obtaining a loan, except where a bank prohibits assignments in its by-laws. (See Finger-Print Identification, Savings Banks.)

### Past Due Bills

See Overdue Bills.

### Pawn

A pledge for the payment of a debt. In this country the term applies to the pledge of personal belongings—jewelry, furniture, clothing, musical instruments, etc.,—for a loan from a pawn broker who is licensed, and permitted to exact extra-legal rates of interest. A pawn broker requires the actual deposit of the articles pledged for the loan he provides, and is permitted to sell or otherwise dispose of articles pledged in case the loan is not paid at a specified maturity. In England, the term applies to the deposit of collateral as security for a bank loan, as distinguished from hypothecation in which the

property itself is not deposited as security, but merely the evidence thereof, such as a mortgage, bill of lading, etc.

### Pawn Broker

See Pawn.

### Payables

A general term to include the combined aggregate of notes and accounts payable.

### Payable Through the Clearing House

Some checks are stamped "Payable through the blank Clearing House," "Through the blank Clearing House," or similar expressions. Such checks cannot be presented at the drawee bank and cashed, but must be deposited for credit and in turn collected through the clearing house. Checks stamped in this way during the panic of 1907 aided the banks in increasing the supply of money, since clearing house balances were settled not by actual cash, but with clearing house loan certificates. These certificates passed as money between members only.

### Payable with Exchange

See With Exchange.

### Pay Day

Account or settlement day; the last day of the fortnightly settlement on the London Stock Exchange. (See Settlements.)

### Payee

The party (person, firm or corporation), in whose favor a check note, draft, or money order is made payable. In the case of a note, the payee is the party to whom the promise to pay is made.

### Payer

The party (person, firm or corporation) upon whom payment devolves, as in the case of a check, draft, note, or bond. In the case of a check, the payer is the drawer; in the case of a draft, the drawee (acceptor after he accepts it); in the case of a note, the maker; and in the case of a bond, the obligor (issuer).

### Paying Bank

The bank upon which a check is drawn (also known as the drawee bank), and which pays a check or draft to a collecting bank, or holder.



## Paying Teller

The first teller; the most important teller of a bank. Although the paying teller is usually associated with the paying of cash against checks presented for payment, and the custodianship of that part of the bank's money stock necessary for counter use, his functions are considerably more comprehensive.

The following outline shows the functions of the paying teller in detail:

1. Paying out money—cashing checks, bank drafts, and matured coupons, etc., upon identification.
2. Custodianship of money.
  - a. Receiving
    - (1) Shipments inward from correspondent or other banks.
    - (2) From other banking departments, *e. g.*, receiving teller, collection department, etc.
    - (3) From original Government sources:
      - (a) Federal Reserve bank of district.
      - (b) United States Treasury.
      - (c) United States Assay Office.
  - b. Counting, examining, strapping, and storing money.
  - c. Redeeming worn and mutilated money at original sources.
  - d. Detecting counterfeits and raised bills.
  - e. Maintaining adequate supply of various kinds and denominations of money.
3. Shipping money to correspondent and other banks.
4. Certifying checks.
5. Settling clearing house balances.
6. Making disbursements for petty expenses.
7. Disbursing payroll cash.
8. Depositing excess cash with Federal Reserve bank or other depository or depositories.
9. Verifying signatures of principals of accounts.
10. Verifying stop-payments.
11. Proving daily work.

Oftentimes the work of counting and inspecting money, and of certifying checks is so heavy that separate sections are created; but always under the supervision of the paying teller. (See Certifications.)

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## Payment for Honor

The payment of a check or bill of exchange after it has been protested for non-payment by an outside party for the purpose of saving the honor of any person liable thereon. Such payment for honor should be attested by a notarial act of honor. The payer for honor is entitled to receive the bill and the notarial protest certificate upon which the notarial act of honor is appended. (See Negotiable Instruments Law, Article 15.)

## Payment Stopped

See Stop Payment.

## Pay to Bearer

A negotiable instrument, *e. g.*, check, draft, note, made payable to "bearer," "cash," or "currency" is payable to bearer, and title may be passed by delivery without indorsement. Instruments which are payable to bearer are known as *Bearer Instruments* (q. v.) and include all forms of money; checks, drafts, and notes made payable to bearer; coupon or bearer bonds; and coupons detached from bonds. (See Negotiable Instruments Law, Art. 2, section 28.)

## Pay to Order

A negotiable instrument which is made payable to order, and which can be negotiated only by indorsement and delivery. A check written "Pay to the order of John Doe" or "Pay to John Doe or order" is an *order* instrument, and must be indorsed by John Doe before any other person can hold legal title to it. (See Negotiable Instruments Law, Art. 2, section 27; Negotiation.)

## Pegged

See Pegged Prices.

## Pegged Prices

The price of a security is pegged when it is not permitted by those in control, to advance above or decline below, a certain fixed point. The market, as a whole, is pegged when prices remain stationary without moving perceptibly in one direction or the other.

## Pence

The plural of *Penny* (q. v.).

**Penni**

A Finnish coin. (See Foreign Moneys—table 2.)

**Penny**

A name given to an English bronze coin equal to 1-12 of a shilling, and approximately equal to 2 cents in United States money. The name is also given to the 1-cent piece in this country. (See English Money Table, Foreign Moneys—table 2.)

**Penny Stocks**

An expression sometimes used to denote stocks selling for less than \$1.00, and quoted in cents.

**Per Capita Circulation**

See Circulation of Money.

**Per Capita Debt**

See National Debt.

**Per Capita Income**

See National Income.

**Per Capita Wealth**

See National Wealth.

**Percent, Percentum, Percentage**

Interest rates, dividend rates and statistical comparisons are expressed by means of percentages, meaning hundredths. Thus, 6 per cent. interest on \$100 for a year is \$6.00, or 6-100. A 6 per cent. dividend on a share of stock of \$100 par value is \$6.00; \$50 par value, \$3.00; \$25 par value, \$1.50.

**Period of Distribution**

See Distribution.

**Permanent Assets**

Same as fixed or capital assets. (See Fixed Assets.)

**Permanent Certificate**

See Definitive Bond.

**Permanent Investments**

Real estate, stocks, bonds, etc., purchased with the intention of holding indefinitely (in the case of bonds, until maturity), for the sole purpose of deriving an income therefrom and without the intention of trading therein. Thus, bonds held by insurance companies or savings banks are re-

garded as permanent investments, whereas bonds held by an investment house are trading assets.

**Perper**

A money of Montenegro. (See Foreign Moneys.)

**Perpetual Annuity**

See Annuity.

**Perpetual Bond**

A bond which has no prescribed maturity date. Some of the so-called perpetual issues have provision for optional redemption after a specified time, either at par, or a slight premium. British Consols have no maturity date, but are redeemable after 1923. Other foreign Government bonds and a few American corporation issues are of this class, but they are not popular investments. The West Shore Railroad's First 4's, due January 1, 1931, are perpetual bonds for all practical purposes. Such bonds are desirable institutional investments.

Perpetual bonds, in reality, are a contradiction in terms since by definition, a bond is a promise to pay both principal and interest on stipulated future dates. They are also known as *Indeterminate Bonds* (q. v.) and sometimes, but not properly, as *Irredeemable Bonds* (q. v.)

**Per Pro**

See Per Procuracion.

**Per Procuracion**

A signature given by an agent who has limited authority to sign for, or in behalf of, his principal. The authority may be given verbally, by power of attorney, or by other written evidence. Banks and trust companies frequently empower certain clerks to sign in this manner, especially where official signatures are required in volume, as for instance in the stock registrar and transfer agent business.

A per pro signature operates as a notice that the agent's authority to sign is limited and that the principal is liable only if the agent acts within the limit of his authority. For this reason, persons accepting per pro signatures should ascertain the extent of the agent's authority in order to insure against the possibility of the agent exceeding such authority. The recipient of Per Pro signatures is entitled to a statement

of authority for such signatures. A Per Pro signature may read either:

The Blank Bank  
Per Pro John Doe  
or  
Per Pro Blank Bank  
John Doe

The term is abbreviated Per Pro, and p.p.

### Personal Check

A check drawn by an individual as distinguished from one drawn by a partnership, corporation, or bank.

### Personal Credit

Credit given to an individual, or to which an individual is entitled, as distinguished from that given a corporation, or partnership. (See Credit, Personal Security.)

### Personal Estate

See Personal Property.

### Personal Loan Broker

According to the New York State banking law a personal loan broker is: "Any individual, who, by himself, or as a member of a partnership or unincorporated association, is authorized by the superintendent of banks to engage in the business of making small loans to needy borrowers, not exceeding \$200 to any individual at any one time at interest exceeding the rate of six per cent. per annum pursuant to the provisions of the law. The term 'Personal Loan Broker,' when so used, includes any partnership or unincorporated association of personal loan brokers."

### Personal Loan Company

According to the New York State banking law a personal loan company is: "Any corporation organized under the New York banking law and authorized by the superintendent of banks to engage in the business of making small loans to needy borrowers not exceeding \$200 to any individual at one time at interest exceeding the rate of 6 per cent. per annum."

### Personal Property

Legally, all property can be divided into two classes; personal property (personalty) real property (realty.) Personal property consists of all moveable goods or possessions, *e. g.*, money, securities, accounts receivable,

merchandise, furniture, live stock, harvested crops, etc.

Personal property is bequeathed, the beneficiary being known as the legatee; whereas real property is devised, the beneficiary being known as the devisee. (See Chattels, Real Property.)

### Personal Security

There are two general classes of security, personal and collateral. When a loan is made upon personal security, the note which evidences the debt is signed, not only by the maker, but also by another person having financial responsibility acting as indorser, surety, or guarantor. There is no implication that personal security is based upon the moral risk alone. The financial worth and capacity of the guarantor are also taken into consideration. In personal security, however, there is no specific pledge of collateral (See Collateral, Guaranty.)

### Personal Trust

See Living Trust, Trusts.

### Personalty

See Personal Property.

### Personnel Department

A department organized among the larger banks to co-ordinate the problems arising from securing an adequate supply and training of the clerical forces. The scope of the department may be indicated by the following outline of activities:

1. Engaging new employees, receiving applications and interviewing candidates for employment, and eliminating undesirable material.
- Records: Application form, References form, Correspondence relating to employment, Fidelity insurance applications.
2. Transferring employees.
3. Answering inquiries concerning former employees.
4. Training employees—general and banking education.
5. Attending to discharges and employees.
6. Making salary adjustments.
7. Preparing personal history cards, showing:—
  - a. Name and address.
  - b. Marital condition.
  - c. Age.
  - d. Telephone number.



- e. Antecedent educational history.
- f. Antecedent history.
- g. Date of entry.
- h. Initial salary.
- i. Department originally assigned to.
- j. Occupation in that department.
- k. Record of department transfers.
- l. Record of salary revisions with dates.
- m. Record of resignation or discharge with dates and reason.
- 8. Rating employees in degree of efficiency.
- 9. Preparing turnover and other statistics regarding the working force.
- 10. Making job analysis.
- 11. Promoting healthful employer-employee relations.
- 12. Conducting the house organ.

### Peseta

See Foreign Moneys—Spain.

### Peso

See Foreign Moneys—Argentina, Chile, Colombia, Cuba, Guatemala, Honduras, Mexico, Panama, Paraguay, Philippines, Uruguay.

### Petroleum

See Oil.

### Petty Cash Fund

A fund from which is disbursed cash in payment of petty expenses, *e. g.*, telegrams, postage, carfare, taxicab hire, small supplies, etc. Vouchers are kept for each disbursement and periodically petty expenses are analyzed and charged to various expense accounts. In the meantime they are held as a part of petty cash.

### Pfennig

A German money. (See Foreign Moneys—table 2.)

### Philadelphia Plan

See Equipment Trust.

### Piastre

A money of Egypt, French Indo-China, India, and Turkey. (See Foreign Moneys—tables 1 and 2.)

### Pice

A money of India. (See Foreign Moneys—table 2.)

### Pie

A money of India. (See Foreign Moneys—table 2.)

### Pinch

An expression sometimes used to indicate a sudden advance in prices. An advance in money rates would be called a money pinch or squeeze. If security prices suddenly advance when there is a large short interest in the market, the shorts are said to be pinched. (See Squeeze.)

### Pit

A name given to the active center of trading in a produce exchange. In the Chicago Board of Trade four pits are located on the trading floor, one each for wheat, corn, oats, and provisions. These are the points at which traders transact their business. Structurally, a pit consists of a series of concentric steps arranged in the configuration of an octagon, leading up from the outside and down to the center. This arrangement permits traders to communicate with each other in the minimum of space. The term *pit* is synonymous with market, except that only one commodity is dealt in at a single pit. A pit in a produce exchange corresponds to a *Post* (q. v.) on a stock exchange.

Pit traders on the Chicago Board of Trade are broker members who trade for their own accounts. They correspond to room traders on the New York Stock Exchange.

### Pittman Act

An Act passed April 23, 1918, designed to aid in the stabilization of the currencies of China and India where a shortage of silver increased the world price of this commodity to the highest level in the recent years. The Act provided for the release of approximately 208 million standard silver dollars held in the Treasury as collateral for silver certificates. The silver purchasing provisions of this Act (effective June 1, 1920) provided for the replacement of this silver, and the United States mint was required to purchase the entire domestic silver output at a price of \$1 an ounce until the entire amount should be replaced. Purchases under the Pittman Act ceased about July, 1923. American silver producers benefited under the terms of this Act, since the mint paid \$1 an ounce against an average world market price during 1921 of 63 cents, and during 1922, of 67 cents.

### Pit Traders

See Pit.

## Plain Bonds

Debentures; unsecured bonds; certificates of debt.

## Pledge

When collateral, *e. g.*, stocks, bonds, etc., is delivered to a bank as security for a loan, the delivery constitutes a pledge for the payment of a debt. A pledge implies a relinquishment of the property of the borrower and the transfer of its custody to the lender. The property pledged must be in negotiable form in order to permit the lending bank to assign it in case of the failure of the borrower to redeem his note. (See Collateral, Hypothecation, Pawn.)

## Pledgee

The party to whom a pledge is made, *i. e.*, to whom securities or other assignable property is pledged as security for payment of a loan. (See Pledge.)

## Pledgor

One who pledges or hypothecates securities or other property as security for the payment of a loan. (See Pledge.)

## Plum

An expression indicating that a company has earned or is disbursing extraordinary profits in the form of an extra cash, or stock dividend; in other words, a *Melon* (*q. v.*).

## Plunge

An expression which denotes reckless speculation on a large scale. A plunger is one who takes enormous risks in the expectation of correspondingly large gains.

## Plunger

See Plunge.

## Point

The unit in which fluctuations in quotations and by which gains and losses are expressed in stocks, bonds, or commodities. On the stock exchange a point is \$1.00, although the smallest quotation unit is  $\frac{1}{8}$  of a point,  $12\frac{1}{2}$  cents for stocks and \$1.25 for bonds (except Liberty Bonds.)

In cotton, sugar, and coffee trading, a point is equal to  $\frac{1}{100}$  of a cent per pound, which is also the smallest quotation unit. Thus, a fluctuation of 25 points would be  $\frac{1}{4}$  of a cent per pound in these commodities.

## Pool

This term has two meanings:

(1) A combination of persons—brokers, professional traders, or other interests—who organize for the purpose of exploiting a certain stock or stocks. A. W. Atwood defines a pool to be: "A number of persons uniting or joining their interests for the purpose of buying or selling and thus increasing or depressing the price of one or more securities or commodities."\*

There is a definite prearranged agreement to divide the loss or gain among the members and which gives the manager of the pool sole power to conduct its operations. While the pool agreement is in force, its members agree not to trade individually in the security or commodity being exploited. In other words, a pool is a joint venture or temporary association of speculators. In order to be successful, the pool must have organization, capital, knowledge of fundamental conditions, and be able to distribute its holdings to the public at a higher price than that at which they were accumulated.

Pools are the most usual, but least objectional, form of manipulation, and it may be said in their favor that combinations in purchases and sales are not limited to the stock market, but occur in other lines of business. Furthermore they are by no means always successful. Pools are constantly working in the market, especially when it is active. It soon becomes apparent when a pool is working, so that it is not impossible for observing outsiders to take advantage of its operations, which, if carried too far, are likely to defeat its purpose and result in a loss for its members. The terms clique, syndicate, and ring are sometimes used with much the same significance as pool.

Different speculative pools are given special names in accordance with the type of agreement entered into among its members. Thus, there are inside pools, blind pools, bobcat pools, etc.

(2) A type of combination among large industries and especially railroads. Railroads began to organize themselves in traffic pools as early as 1860. The traffic pool provided for a combination of business among the railroads entering it. Arrangements were made whereby each railroad was allocated that proportion of the total traffic originating at any competitive point which represented the percentage it would have carried under normal competitive conditions. In short, a definite percentage was determined upon and

\* The Exchanges and Speculation, p. 258.

guaranteed to each carrier. Due to difficulties of apportionment, the traffic pool was abandoned for the money pool which was in full operation by 1870, at which time practically all railroads were in some kind of a pool. In the money pool, instead of apportioning actual tonnage among the railroads, according to some prearranged percentage, gross receipts from traffic were pooled and apportioned on a pre-determined percentage basis. Deposits of money were required to secure a pledge of good faith to the pool agreement. Pools were prohibited by the Interstate Commerce Act of 1887.

### Porphyry

The name given to any compound rock or ore, but in finance, applied particularly to a copper mine containing ore reserves, but ore of comparatively low grade. By extension, the term is used to refer to a copper company, or to that group of copper companies, which extract copper from low grade copper ores, as distinguished from the companies engaged in developing mines containing native copper, or ore with a high copper content. The porphyry copper companies are also known as the high cost producers, due to the fact that the cost of developing low grade ores is greater than that of developing high grade ores.

### Position

A term used with reference to future contracts, based on the names of the month in which such contracts mature, *i. e.*, delivery becomes due. In all of the future markets, *e. g.*, grain, cotton, sugar, coffee, etc., contracts for delivery at some future date, usually designated by months, are bought and sold. For example, a contract which matures next December, is known as a December position.

### Position Sheet

A name given to an accounting summary designed to show the commitments of a bank or foreign exchange house in foreign currencies. A position sheet is usually prepared daily to show exactly the bank's position with regard to its foreign balances, and the total amount for which it is committed, both on spot and future contracts. In reality, it is a summary of the foreign exchange ledgers, and shows whether the bank is long or short of each foreign currency. If a bank is long in its sterling position, the aggregate of its sterling accounts with correspondents abroad will show a net credit balance on the latters' books. A bank is short

of sterling when the opposite condition is true, *i. e.*, when the aggregate of sterling accounts with correspondents abroad shows a net debit balance on the latters' books. Thus, a bank is short of sterling when it has as yet only exhausted available sterling balances against which it can sell sterling drafts, but has overdrawn such accounts, leaving a net debit balance which must be made good. To "even up" accounts it will be necessary for the bank to "cover," that is, to purchase sterling.

In determining the position for each day, future contracts are considered, as well as spot. The position sheet shows the average cost and current market rate of all commitments and approximately shows the bank's daily profit or loss in each foreign currency. On the following page will be found a typical form of position sheet.

### Post

A point or position on the floor of a stock exchange at which certain groups of stocks are bought and sold, so called because a post which indicates what stocks are traded in is erected at that point. There is a particular post for certain stocks and brokers interested in specified stocks must transact business at the designated post. Bonds also are traded in at specially designated posts. Posts in a stock exchange correspond to pits in the Chicago Board of Trade, or other produce exchange.

### Postal Money Order

See Money Orders.

### Postal Savings Banks

Savings banks organized as a part of the United States post office, by which savings are accepted from individuals up to \$2,500, and which may be withdrawn without notice at any time. The purpose of postal savings banks primarily is to receive deposits of money from foreigners and other persons who may lack faith in the regular constituted banks owned and managed by private capital. Postal savings banks are, therefore, concessions to those who do not trust banks, and perform a useful service by attracting deposits for use in productive pursuits that otherwise would be hoarded.

The following regulations regarding postal savings have been issued\* by the post office:

PURPOSE: The United States Government accepts interest-bearing postal savings depos-

\*July, 1920.



SUMMARIZED POSITION SHEET

SHOWING TOTAL COMMITMENTS FOR SPOT (CABLES, CHECKS, ETC.) AND FUTURE DELIVERY

Country.		FOREIGN CURRENCY		Total.	Cost Rate.	Market Rate.	DOLLAR EQUIVALENT.	
		Long.	Short.				Long.	Short.
London	Spot		4,000					
	Future		1,000	5,000	3.88	3.67		19,400.00
Paris	Spot		25,000					
	Future		15,000	40,000	7.32	7.14		2,928.00
Berlin	Spot		700,000	840,000				
	Future		140,000		1.58½	1.62		13,314.00
Belgian	Spot		10,000					
Francs	Future		15,000	25,000	7.58	7.45		1,895.00
Lire	Spot		100,000					4,487.00
	Future		25,000	125,000	3.67	3.64		
Holland	Spot	5,000			34.15	34.15	1,707.50	
Swiss	Spot	27,000			16.47	16.54	4,446.90	
Franks								
Spain	Spot	83,000			14.21	13.92	11,794.30	
Stockholm	Spot	35,000			22.57	22.40	7,899.50	
Christiania	Spot	35,000			19.00	17.50	9,500.00	
Copenhagen	Spot	55,000			19.10	18.10	10,500.00	
Vienna	Spot	112,000			26.00	22.00	300.00	
Prague	Spot	43,000			1.32	1.25		
Greece	Spot	20,000			7.05	7.95	1,400.00	
Bucarest	Spot	60,000			1.50	1.34	945.00	
Total—Long .....							\$49,023.20	\$42,024.00
Total—Short .....							42,024.00	

Dollar equivalent of all exchanges at risk of market changes..\$91,047.20

its from the public and guarantees to pay them on demand.

**WHO MAY DEPOSIT:** Any person 10 years old or over may open a postal savings account in his or her name by depositing one or more dollars in any post office authorized to accept postal savings deposits. No person may at the same time have more than one account either at the same office or at different offices. The account of a married woman is free from any control or interference by her husband. Post office employees are forbidden to disclose to any person except the depositor, the amount of any deposits.

**AMOUNT THAT MAY BE DEPOSITED:** A person may deposit any number of dollars, and at any time, until the balance to his credit amounts to \$2,500, exclusive of accumulated interest.

**OPENING ACCOUNTS:** A person desiring to open a postal savings account should apply at the post office, where full instructions will be given. If for any good reason an intending depositor can not apply at the post office, a representative may be sent, who will be instructed how to proceed. A person residing at a post office not authorized to accept

postal savings deposits may open an account at a depository office by mail, through his local postmaster, who will give full instructions on application.

**DEPOSITS:** After a postal savings account has been opened deposits may be made either in person, by a representative, by money order, or by registered mail if the money-order service is not available.

Postal savings deposits are acknowledged by postal savings certificates which are made out in the name of the depositor and serve as receipts. These certificates are not negotiable or transferable. If certificates are lost, stolen, or destroyed, new certificates may be issued.

**WITHDRAWALS:** A depositor may at any time withdraw all or any part of his postal savings deposits, upon demand, from the post office where the deposits were made. Withdrawals may be made in person, through a representative, or by mail.

**INTEREST:** Postal Savings certificates bear simple interest at the rate of 2 per cent. per year. Interest begins on the first day of the month following the month in which the certificate is issued and becomes due and pay-

able at the expiration of each full year from the day interests begins, as long as the principal remains on deposit. No interest will be paid for a fraction of a year.

**POSTAL SAVINGS CARDS AND STAMPS:** Amounts less than \$1 may be saved by purchasing postal savings stamps of 10 cents each. A postal savings card with ten savings stamps affixed will be accepted as a deposit of \$1 either in opening a postal savings account or in adding to an existing account, or it may be redeemed in cash. Postal savings cards will be furnished free of cost.

**POSTAL SAVINGS BONDS:** A depositor may exchange the whole or a part of his deposits for registered or coupon United States postal savings bonds, bearing 2½ per cent. interest, issued in denominations of \$20, \$100, and \$500. When bonds are issued in exchange for postal savings deposits the balance to the credit of the depositor is reduced accordingly, and he may make further deposits until his account reaches \$2,500.

**INFORMATION:** If further information about the Postal Savings System is desired it may be obtained by applying at any post office or by addressing the Third Assistant Postmaster General, Division of Postal Savings, Washington, D. C.

### Postal Savings Bonds

The following regulations have been issued by the Post Office Department concerning Postal Savings Bonds:

**DESCRIPTION:** (1) Depositors of the Postal Savings System may apply at any time to exchange the whole or a part of their deposits for United States registered or coupon bonds in denominations of \$20, \$100, and \$500. Such bonds will be dated January 1, or July 1, of each year, and will bear interest at the rate of 2½ per cent. per annum, payable semi-annually. They will be redeemable at the pleasure of the United States after one year from the date of their issue and payable 20 years from that date, both principal and interest being payable in United States gold coin.

(2) Postal savings bonds are exempt from all taxes or duties of the United States as well as from taxation in any form by or under State, municipal, or local authority.

**CONVERSION OF DEPOSITS:** (3) Applications for the conversion of deposits into bonds must be submitted to the postmaster at the depository post office where the deposits are made, those for the issue of January 1, on or

before the first business day of the preceding December, and those for the issue of July 1, on or before the first business day of the preceding June. The postmaster will supply an application form, which must be made out in triplicate. The depositor must indorse and surrender with his application postal-savings certificates covering the amount of the bonds desired, for which the postmaster will give him a receipt. The bonds will be issued by the Secretary of the Treasury and delivered direct to the applicants. The bonds will bear interest from the date of exchange, January 1, or July 1, but will not be available for delivery until a month or more thereafter, owing to the time required for printing and registering.

(4) Interest on certificates surrendered for conversion into postal savings bonds, accruing before or on the date of exchange, January 1, or July 1, will be paid by the postmaster at any time after it becomes due. Interest will not be paid for any fraction of a year, the exchange of deposits for bonds having the same effect as a withdrawal for any other purpose.

(5) Postal savings deposits converted into bonds are not counted as a part of the maximum which one person may have on deposit with the Postal Savings System, and there is no limitation on the amount of available postal savings bonds which may be acquired by a depositor. The exchange is effective as of the date on which the bonds begin to bear interest, January 1, or July 1, and a depositor who had to his credit the maximum balance allowed by law and has converted into bonds all or part of his deposits may make additional deposits to the maximum amount allowed, beginning with the date of exchange, though the bonds may not yet have been delivered.

(6) Postal savings bonds can be procured only by the conversion of postal savings deposits and will not be issued to persons who are not depositors. They may, however, be sold or assigned to any person. (See paragraphs 7, 8, 9, 10 and 11.)

**REGISTERED AND COUPON BONDS:** (7) The depositor's application must indicate whether bonds are desired in registered or coupon form. Coupon bonds are payable to bearer, and the title will pass with delivery without indorsement. Interest on coupon bonds is collected by mean of interest coupons, which are detached by the holder as they become due.

Registered bonds differ from coupon bonds in the following respects:

(a) They have inscribed upon their face the names of the persons to whom they are issued.

(b) They are payable only to the persons to whom issued or their assigns.

(c) The ownership of registered bonds can be transferred only by formal assignment.

**ASSIGNMENT OF BONDS:** (8) Registered bonds are assigned by the use of the form printed on the back, which must be properly dated and acknowledged before one of the officers indicated at the bottom of the form. The assignment may be acknowledged before the postmaster at any depository post office, but the acknowledgment cannot be made before a notary public. When the assignment is made by mark, it must be witnessed by at least one person other than the officer before whom it is made. When registered bonds are assigned, they should be transmitted by the new owner to the Secretary of the Treasury (Division of Loans and Currency) for transfer on the books of the department. Registered bonds can not be exchanged for coupon bonds. Coupon bonds may be converted into registered bonds, without charge, at the request of the holder.

(9) Bonds assigned by executors, administrators or others acting in a fiduciary capacity should be accompanied by a properly certified copy of their authority.

(10) Bonds registered in the name of a minor can be assigned only by a duly appointed guardian or trustee, evidence of whose authority must be submitted. A minor has the right to convert his postal savings certificates into registered bonds, but if the bonds are assigned during his minority this regulation must be observed. This requirement does not apply to coupon bonds, which are transferred by mere delivery.

(11) Bonds registered in the name of a corporation can be assigned only by an officer or employee of the corporation who is specifically authorized to do so by resolution of the board of directors. A blank form for this purpose is provided by the Treasury Department.

**PAYMENT OF INTEREST ON BONDS:** (12) Interest on registered bonds is paid by checks issued by the Treasury Department semi-annually in favor of the registered holders. These checks are sent by mail to the last recorded post office address of the holder, and the holder of a registered bond should immediately notify the Secretary of the Treasury (Division of Loans and Currency) of any change in his post office address.

Checks for interest on registered bonds, as well as interest coupons detached from coupon bonds, are payable on presentation at the United States Treasury or any United States sub-treasury, or they may be collected through the usual banking channels. They may also be cashed by postmasters.

**BONDS LOST OR DESTROYED:** (13) Payment on registered bonds that have been lost or stolen may be stopped by notifying the Secretary of the Treasury (Division of Loans and Currency) at Washington. If coupon bonds are lost, the Government does not undertake to protect the owner against the wrongful holder, but recognizes the bearer only. When bonds, either registered or coupon, have been destroyed wholly or in part, or defaced, a claim may be filed with the Secretary of the Treasury under certain prescribed conditions for their replacement. Claims for the loss of detached coupons will not be allowed.

**INFORMATION AFTER DELIVERY OF BONDS:** (14) United States bonds, including postal savings bonds, are issued, transferred, and redeemed under such regulations as the Secretary of the Treasury may prescribe. Communications concerning postal savings bonds after their delivery should be addressed to the Secretary of the Treasury (Division of Loans and Currency), Washington, D. C., excepting those relating to purchase by the Board of Trustees of the Postal Savings System under paragraph 15.

**PURCHASE BY THE BOARD OF TRUSTEES:** (15) Postal savings bonds will be purchased at par by the Board of Trustees of the Postal Savings System, and must be forwarded for this purpose to the "Third Assistant Postmaster General, Division of Postal Savings, Washington, D. C."

Registered bonds must be assigned to the "Board of Trustees, Postal Savings System." (See paragraphs 8, 9, 10 and 11, as to manner of making assignment.) Payment is made to the owner of the bond making the assignment to the board.

Purchases are not made by the Board of Trustees from June 16 to 30, and December 16 to 31, of each year, as the books of the Treasury Department are closed for the transfer of bonds during those periods.

Postmasters are not authorized to purchase postal savings bonds on behalf of the Board of Trustees.

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### Postal Savings Deposits. (Funds)

Except where postal savings deposits are accepted in small places having no banks that are members of the Federal Reserve System, postal savings deposits are required to be kept in either Federal Reserve banks or member banks. Banks receiving postal savings deposits as fiscal agents for the Government are required to furnish ample security for such deposits. The Board of Trustees, consisting of the Postmaster General, the Secretary of the Treasury and Attorney General is charged with the management and investment of postal savings funds after they leave the custody of postmasters. The Third Assistant Postmaster General is the agent of the Board of Trustees in their relation with depositing banks. Banks qualifying as depositories for postal savings funds are required to deposit bonds with the Treasury of the United States as security in the amount and kind specified, as follows: Temporary bonds, certificates of indebtedness, and warrants are not acceptable. The following bonds are eligible: (1) bonds of the United States, Philippine Islands, District of Columbia and Porto Rico at par value; (2) bonds of any state of the United States and of Hawaii, at market value, not to exceed par; (3) bonds of any city, county, or town in the United States or any school district in which the whole, or major portion of any such city is included, that has been in existence for 10 years; that has not defaulted in payment of principal or interest in 10 years, and whose net funded indebtedness does not exceed 10 per cent. of the valuation of its taxable property; and having a population of 30,000 or over, at 90 per cent. of market value not to exceed par. Similar bonds of towns having a population of less than 30,000, at 75 per cent. of market value, not to exceed par.

### Post-Dated Check

A check that is dated ahead, *i. e.*, bearing a date that has not yet arrived. A bank has no authority to pay a post-dated check. It may pay checks only when dated as of the day of presentation, or a date prior thereto. (See Check.)

### Posted Rates

(1) Rates quoted daily by bankers dealing in foreign exchange indicating the price at which a certain currency is offered for sale. While posted rates govern for small trans-

actions, they differ from actual rates made directly between bankers or brokers and large buyers, which fluctuate constantly during the day and do not necessarily correspond with posted rates. When actual rates are quoted, they must be accepted immediately when offered. They do not hold even from hour to hour.

(2) The term also applies to the rate for call money quoted on the floor of the New York Stock Exchange. Here too, the posted rates may differ from actual rates at which money is being loaned. Posted rates are also called nominal rates.

### Post-Office Money Order

See Money Orders.

### Pound

(1) A unit of weight divided into 12 troy ounces of 480 grains each.

(2) The monetary unit of England, Scotland, Ireland, South Africa (Cape Colony, Natal, Orange River Colony, Rhodesia, Transvaal), British West Africa, Canary Islands, Australia, New Zealand, New Caledonia, Bermuda, and current in Egypt along with piastres.

The English pound or pound sterling (to distinguish it from the unit of weight) is 22 carats, *i. e.*, 11/12 fine. It is also known as the sovereign. It derives its name from the fact that a pound of silver was once coined into 240 silver pence. (See English Money Table, Foreign Moneys—Great Britain.)

### Pound Sterling

See Pound.

### Power of Attorney

A document witnessed or acknowledged, authorizing the person named therein to act in place of the signing party. A power of attorney may be general or special. In the latter, the authority of the agent is limited, and is valid only for acts defined therein. In financial transactions, a power of attorney is usually special or limited, and is frequently used in the transfer of stock certificates and proxies for voting. It must set forth the powers conferred upon the agent. The common form of assignment and power of attorney approved by the committee on stock list of the New York Stock Exchange for the purpose of transferring stock, and appearing on the reverse side of most certificates, is as follows:

For value received.....  
 I (We).....hereby  
 sell, assign and transfer unto.....  
 .....shares of the capital stock repre-  
 sented by the within certificate and do  
 hereby irrevocably constitute and appoint  
 .....attorney to transfer the  
 said stock on the books of the within  
 named company with full power of substi-  
 tution in the premises.  
 Dated.....  
 In the presence of.....

**Power of Substitution**

A form which is stamped or written on the reverse side of a stock certificate when an attorney has been named for the purpose of transferring the stock and who, according to the terms of the power of attorney, is given the privilege of appointing a substitute.

In such cases, the following form is signed by the attorney appointed in the assignment. The substitute is named in the body of the Power of Substitution.

I (or We) hereby irrevocably constitute and appoint.....  
 my (or our) substitute to transfer the  
 within named stock under the foregoing  
 Power of Attorney, with like power of  
 substitution.  
 Dated .....  
 In the presence of.....

(See Power of Attorney, Stock Transfers.)

**Powers of National Banks**

See National Banking System.

**Preference Bonds**

Another name given to what are usually railroad income or adjustment bonds, especially when issued in series, as first, second and third; or Series "A", Series "B", Series "C". Interest on preference bonds is paid on each series in the order of preference; thus, interest may be earned on Series "A" and "B", but not on Series "C". (See Income Bonds.)

**Preference Income Bonds**

Same as *Preference Bonds* (q. v.).

**Preference Shares (Stoc<sup>1</sup>)**

The English equivalent of preferred stock in America. (See Preferred Stock.)

**Preferred Creditor**

One who has preferred claims which legally take precedence over those of other creditors. For instance, in the dissolution of an insolvent company, the claims of laborers for wages, of the Government for taxes, and mechanics' liens, take precedence over all others whether secured or unsecured. (See Liabilities.)

**Preferred Stock**

Stock which has a claim upon the earnings (and sometimes upon the assets and control) of a corporation prior to the common or other class of stock. Preferred stock represents an equity in the corporation which ranks after all bonds and floating debt, but ahead of common stock. Dividends must be paid upon the preferred stock before any distribution can be made to the common stockholders. Sometimes preferred stock is issued in series, *e. g.*, "Preferred A", "Preferred B", etc., or "Class A", "Class B", etc., or "First Preferred Stock", "Second Preferred Stock", etc. In such cases, dividends must be paid on the first series before a distribution can be made on the second, and on the second before on the third.

Dividends on preferred stock may be "cumulative" or "non-cumulative". A cumulative dividend is one which if not paid in one year, carries over from year to year until paid; *i. e.*, in case profits are not sufficient to pay the dividend at the full rate in any given year, then they are said to be in "ar-rears", and constitute a claim on earnings so long as unpaid prior to dividends on the common stock. Common stockholders are, therefore, not entitled to receive dividends so long as dividends upon cumulative preferred stock remain in "ar-rears". Non-cumulative dividends are a *prior* claim in any given year; but in case profits are insufficient to pay the dividend in full, there is no obligation on the part of the corporation to make up the deficiency in any subsequent year. In other words, the dividends not paid in any given year would be lost to the stockholders forever. The courts have held that dividends upon preferred stock are "cumulative", unless otherwise stated.

Dividends upon preferred stock are at a fixed (rather than a contingent) rate. The range of return upon industrial preferred stocks is usually from 6 per cent. to 8 per cent., while railroad preferred stocks normally range from 4 per cent. to 7 per cent.

Preferred stock may also be preferred as to assets, and as to control. But in no case

are preferences more than those specifically set forth. When preferred as to assets, the full par value of the preferred shares must be paid, in case of dissolution or insolvency, before any payment (liquidating dividend) is made to the common shareholders. Prior claims as to voting sometimes rest with the preferred stock, but usually this class of stock has no voting power, the theory being that the common stockholders, bearing the greater part of the risk, should have the control. In other cases of less frequent occurrence, preferred and common stockholders rank equally in voting power.

Preferred stock by reason of its preferences makes an appeal to the more conservative type of investors, who desire to obtain a greater return than is possible from the better grades of bonds. A few issues of preferred stocks are as secure as many issues of bonds, and the speculative opportunities are somewhat greater. Industrial preferred stocks may be classified as speculative investments, and whenever issued by well-known corporations are usually readily absorbed.

In recent years, attempts have been made to increase the attractiveness of preferred stock by additional measures designed to throw further safeguards around the investor who purchases this class of securities. Some of these measures to secure further protection are: (1) preference as to assets; (2) "cumulative" dividends; (3) limited issue; (4) provision for partial or total redemption of the issue at some subsequent date by means of a sinking fund, and usually at a premium; (5) provision requiring that net current assets shall at all times equal or exceed the amount outstanding; (6) provision requiring that net surplus be kept at a certain percentage of capital; (7) provision for automatically placing control in the hands of preferred stockholders in case of failure to pay dividends, etc.

Participating preferred stock carries the right to earn dividends in excess of the specified dividend rate in an amount equal to the rate paid upon the common stock. Under this arrangement, the preferred stockholders share in extreme prosperity along with the common stockholders without relinquishing any of their rights of priority, and in no case can common stockholders receive dividends at a higher rate than the preferred stockholders.

Convertible preferred stock gives the owner the option of converting his preferred shares into common shares at a stated rate of exchange. In case of appreciation of the market value of the common shares, a profit

might be made by converting. Thus, participating preferred and convertible preferred stock have additional speculative attractions.

Preferred stocks create a special type of ownership with less risk than common stock, but with definite limitations of control and income. (See Capital Stock, Stock Certificate.)

### Premises

This term has two meanings:

(1) The introduction of a legal document, such as a deed, conveyance, or mortgage, which sets forth the parties and subject matter, and which is referred to in the document as the premises.

(2) In banking, the term is used as synonymous with *Banking House* (q. v.).

### Premium

This term has four meanings:

(1) The percentage or price which a security commands over its face value. A share of stock of \$100 par value selling at 110 is at a premium of 10 per cent., or \$10.00 a share. The amount of premium is based upon par value and if the par value of a stock is \$50 and sells for \$60, it is at a 20 per cent., or \$10 premium.

(2) Gold or silver coin is at a premium when it is necessary to pay more than \$1.00 for it in paper money of the same denomination. In this sense, it means the same as the term *Agio* (q. v.) on the continent of Europe.

(3) The annual, or less frequent sum, paid by an insured party upon an insurance policy.

(4) The price paid on an option contract or other privilege. (See Privileges.)

### Premium Bonds

Bonds which are retired at their maturity (or at an optional prior date) at an amount above their par value. Such bonds are rare in this country, but are rather frequent among European Government bonds. (See Lottery Bonds.)

Bonds bought or quoted at a premium are sometimes (but in a loose sense) called premium bonds.

### Presentation

A term meaning the same as *Presentment* (q. v.), the latter term being the more correct usage.

### Presentation Draft

Same as Demand Draft. (See Draft.)



### Present Standard of Weight and Fineness

Most bonds and other long time contracts calling for the payment of money specify that the amount due shall be paid in gold coin of the United States according to the "Present Standard of Weight and Fineness". The purpose of this specification is to avoid future litigation in case any question arises as to the kind of money in which the debt is payable, or in case of a change in the coinage laws to avoid payment in a depreciated currency.

### Presentment

The handling of a matured note, draft, or bill of exchange to the maker or drawee for payment is known as a presentment for Payment. When a draft or bill of exchange is handed to the drawee for acceptance, it is known as a presentment for acceptance. Notes and bills of exchange should be presented on the due date in order legally to hold the indorsers. A notarial protest certificate is legal evidence of formal presentment and refusal to pay (or accept). (See Negotiable Instruments Law, Article 7; Notarial Protest Certificate.)

### Present Value

The current or today's worth of a certain sum of money due on a specified future date, after taking interest into consideration. The proceeds or net avails of a discounted note are its present value at a given rate of interest. The term is also used of other conceptions involving complicated mathematical formula, as the present worth of a series of fixed payments due at regular intervals, *e. g.*, an annuity; also of a deferred payment, *e. g.*, an overdue note in which compound interest must be computed. (See Discount.)

### Price

The value of anything exposed for sale expressed in money terms.

### Price Index Numbers

See Index Numbers.

### Price Movements

See Business Cycle, Fluctuating Principle, Index-Numbers, Speculative Cycle, Swings.

### Prices

Quotations for securities and commodities in the various exchanges and markets. For a historical summary of prices of all import-

ant commodities and security groups, including money and foreign exchange rates, see "Statistical Bulletin and Monthly Price Record", published by the Standard Statistics Company, New York City. (See Index-Numbers.)

### Primary Deposits

Deposits which arise from actual lodgment in a bank, of cash or its equivalent, as distinguished from derivative deposits which are deposit credits, created by granting a loan, and crediting the borrowers' account for the proceeds.

### Primary Liability

A direct liability as distinguished from a contingent one. (See Liabilities.)

### Primary Market

See Market.

### Primary Points

The large cities in the West where grain is received from the country districts, and stored in elevators and warehouses, to be distributed to the various consuming centers as needed. The chief primary points are Chicago, Minneapolis, Duluth, Kansas City, St. Louis, Detroit, Toledo, and Buffalo.

### Primary Receipts

Total daily receipts of grain at the *Primary Points* (q. v.).

### Prime

An expression used to indicate that an investment, whether a bond, acceptance, or commercial paper, is first class, high grade, gilt-edge, conservative, etc.

### Prime Bills

See Prime.

### Prime Investments

See Prime.

### Prime Paper

See Prime.

### Principal

This term has two applications:

(1) The face amount or par value of a note, bond, or other evidence of debt; that is, the amount exclusive of interest or premium which the holder is entitled to receive at maturity. It is also the sum on which

interest is computed. The principal of a share of stock is its par value.

(2) The amount of money employed for profit or interest-bearing purposes; the fund invested for the purpose of yielding an income under the name of interest, as distinguished from such income.

### Priorities

The claims of creditors against a business, estate, or landed property have certain priorities or preferences. For the priority of claims against insolvent businesses, see *Liabilities*. For the preferences accorded preferred stockholders, see *Preferred Stock*. In the case of an estate, funeral expenses and reasonable doctor's fees incurred during the last illness of the decedent, constitute a first claim. Other proved claims against the estate rank before the distribution of the remainder to the heirs and legatees.

### Prior Lien

See Lien.

### Prior Lien Bonds

These bonds are not necessarily, as the title might imply, first mortgage bonds. Prior lien bonds are those secured by a mortgage taking precedence over another or other mortgages against the company's property. The title generally occurs only among railroad issues and it is necessary to investigate the terms of the mortgage in order to determine the exact nature of the security. (See Lien.)

### Prior Preference Stock

A rare title denoting that two or more classes of preferred stock have been issued, but that the prior preference stock is entitled to dividends in full before the second or third class receives anything. It is more usual, when preferred stock is issued in series, to designate it as first, second and third preferred stock, or as Series, or Class A, Class B, Class C, etc.

### Prior Preferred Stock

A title having practically the same significance as first preferred stock. (See Prior Preference Stock.)

### Prior Redemption

When redeemable or optional bonds are called for redemption at a date prior to the obligatory maturity, the act is called prior redemption. Unless provision is made in the

terms of an issue, bonds are not subject to prior redemption. (See Optional Bonds.)

### Prior Sale

See Offered Firm.

### Private Banks

The oldest form of banking, conducted either as a partnership or individual proprietorship and distinguished from incorporated banks. In most states, private banks are required to have a minimum capital, to post bond, and are prohibited from employing a firm name containing the word "Bank". In a few states the banking business is denied to unincorporated firms.

The Federal Reserve Board\* interprets the term private banker "to include partnerships or individuals who are engaged in the banking business, as that term is generally understood,—including those partnerships and individuals who solicit or receive deposits subject to check, who do a foreign exchange, acceptance, loan or discount business, or who purchase and sell and distribute issues of securities by which capital is furnished for business or public enterprises.

The term is interpreted not to include the ordinary stock, note, or commodity broker, unless a substantial proportion of his profits are derived from, or a substantial part of his business consists in, one or more of the banking activities described, nor is it interpreted to include partnerships or individuals using only their own funds in making loans or investments."

Private banks perform two principal functions. In the larger cities they frequently engage in all phases of banking, oftentimes specializing in investments, securities, foreign exchange and foreign loans. In New York City the operations of private banks like J. P. Morgan & Co., Kuhn, Loeb & Co., etc., are on an international scale. They promote and underwrite the securities of new enterprises and combinations. Thus, their activities are extremely varied, at the same time being commercial bankers, brokers, dealers in foreign exchange and letters of credit, promoters, organizers, reorganizers, investment bankers, and underwriters.

In smaller communities private banks supply bank accommodations where incorporated banks would not be profitable. Small private banks perform the customary banking operations, such as receiving deposits, granting loans and making collections.

\* Announcement, Oct. 6, 1916.

Private banks comprise the smallest group of bank institutions, about one out of thirty being a private bank. The personal assets of the private banker are attachable in case of failure, and bank assets should at all times be segregated from personal assets. Recent banking legislation has tended to subject private banks to the same supervision as incorporated banks, with the result that many former private banks now have taken out charters.

The New York Banking Law defines the term Private Banker to mean: "An individual, who, by himself, or as a member of a partnership or unincorporated association, is engaged in the business of receiving deposits subject to check or for repayment upon the presentation of a pass book, certificate of deposit or other evidence of debt, or upon the request of the depositor, or in the discretion of such individual, partnership or unincorporated association; of receiving money for transmission; of discounting or negotiating promissory notes, drafts, bills of exchange or other evidences of debt; of buying or selling exchange, coin or bullion; or is engaged in the business of transacting any part of such business. The term 'private banker', when so used, shall include the executor or administrator of a deceased private banker, and a partnership or unincorporated association of private bankers."

### Private Wire

Banks, investment houses, and members of stock and produce exchanges frequently lease telephone or telegraph wires for their own exclusive use, or jointly with other parties, for the purpose of keeping in immediate and convenient contact with their branches or correspondents located in other places, or with certain other houses in the larger centers.

### Private Wire Houses

Members of the New York Stock Exchange, Chicago Board of Trade, etc., who maintain private wire connections with their branches or correspondents located in other places. About 200 members of the New York Stock Exchange, and about 50 members of the Chicago Board of Trade, are known as Private Wire Houses.

### Privilege of Registration

Coupon bonds are sometimes issued with the option given the holder to have them registered, either as to principal and interest, or

as to principal only. (See Registered Bonds.)

### Privileges

A general term to include specific financial contracts made with the view of permitting one of the parties to exercise some right, option or privilege, such as to purchase securities or commodities, for a limited time, a price being paid for such privilege. Specific forms of privileges are the *Option* (q. v.), *Put* (q. v.), *Call* (q. v.), *Spread* (q. v.), *Straddle* (q. v.).

According to the rules of the New York Stock Exchange, privileges are not permitted to be dealt in on the floor, but members may deal in them outside the board room.

### Probate

Upon the death of a testator the will must be proved. Probate is the term given to a document which constitutes the legal proof of a will. It is issued by a court of competent jurisdiction, given various designations in different states, such as Probate Court, Surrogate Court, Orphans' Court, etc.

### Proceeds

This term has three applications:

(1) The sum which a borrower receives from a bank when a note is discounted. The proceeds are equal to the face amount of a note, less the discount, and are sometimes known as the net avails. (See Discount.)

(2) The sum realized from the sale of any property, whether securities, commodities, land, etc., after deducting the expenses of sale.

(3) The sum collected upon a check after deducting exchange, or collection charges.

### Produce Exchanges

Organized markets for the purchase and sale among their members of commodities such as wheat, corn, oats, flour, hay, provisions, etc. Some produce exchanges are general exchanges where many commodities are dealt in. Others specialize in one commodity, such as the New York Cotton Exchange, and the New York Coffee and Sugar Exchange. (See New York Produce Exchange, Chicago Board of Trade, New York Cotton Exchange, New York Coffee and Sugar Exchange.)

### Professional

An operator who habitually makes a business of speculating, either in the stock or



commodity markets, or both. Speculators are divided, roughly, in two classes, the professionals and the public. Professionals are "professional" traders who engage in speculation as a vocation; the public are "amateur" traders who enter the market either occasionally, or continuously but as an avocation.

The stock market is said to have a professional appearance when the public is out of it, or when the participation by the public is small, and prices consequently are controlled by the professionals. (See Operator.)

### Profit

(1) In business operations, profit is the gain from manufacturing, merchandising and selling operations after all expenses are met. It is measured by the increase in net asset value over the previous accounting period. The amount of a concern's profits can be determined not only through the profit and loss statement, but also by a comparison of balance sheets, provided collateral information is furnished such as dividends, sinking fund payments, etc.

(2) In speculative transactions, profit is the excess of the net selling price over the cost (including all charges), of the security or commodity traded in. (See Net Profits.)

### Profit and Loss

A bookkeeping term to indicate the account through which all expenses and profits are cleared in order to determine the net profit or loss for the accounting period. Expenses and losses are entered on the debit side and sales or other income items on the credit side. In banking practice, the balance of this account is carried to *Undivided Profits*. P. & L. is the abbreviation for *Profit and Loss*.

### Profit Sharing Bonds

See Participating Bonds.

### Profit Taking

The selling of securities or commodities when the price has advanced over that of the purchase price, in order to convert paper profits into cash, *i. e.*, to realize a profit on a speculative transaction through selling at a higher price. In a case of short selling, profit taking consists in buying (covering) when the current price has fallen below the original selling price.

### Progressive Discount Rates

Federal Reserve banks were permitted under the Phelan Bill which became a law April 13, 1920, to increase the rediscount rates of those member banks whose rediscounts exceed a specified base to which the normal rate applies. The purpose of the progressive discount rate plan is to discourage further borrowing and rediscounting at times when the volume of credit outstanding is dangerously high and when prices have reached excessive levels. In the latter months of 1920, effective use was made of progressive rates in two Federal Reserve districts. The plan was put forward because the general raising of the normal rediscount rate throughout the United States did not sufficiently restrict rediscounting operations, and as an alternative to the plan of refusing to accept certain classes of paper for rediscount regardless of the discount rate. (See Rediscount Rate.)

### Promisor (Promissor)

One who promises to do a thing. A promisor is legally responsible for fulfilling a promise, provided it has been made for a valuable consideration and its fulfillment is not contrary to law. A maker of a note or an issuer of bonds is a promisor.

### Promissory Note

As defined by the Federal Reserve Board Regulations, a promissory note is: "an unconditional promise, in writing, signed by the maker, to pay in the United States, at a fixed or determinable future time, a sum certain in dollars to order or to bearer." Regulation A, Series of 1920, A, 4.). (See Note.)

### Promoter

A person who brings together a newly conceived business enterprise and financiers; that is, one who secures the necessary capital from financial interests, bankers, underwriters, private investors, etc., to inaugurate a new business. The promoter is a kind of middleman who discovers business opportunities and sells them to capitalists.

The function of a promoter of a new enterprise is to conceive or discover the proposition, to assemble the factors—its technical and legal feasibility—procure options upon property, patents, etc., issue a prospectus, aid in the flotation of securities, and launch the enterprise. The promoter is in reality an entrepreneur pro tem.

There are both occasional and professional promoters. Occasional promoters may be bankers, lawyers, engineers or business executives, who, because of their business contacts and knowledge of the technical, legal and financial phases of business, are in a position to discover propositions the exploitation of which appear to promise large returns. The professional promoter is regarded with more or less suspicion, due to the fact that in the nature of things he is bound to attempt promotions which lack feasibility.

The promoter performs an incalculable service for society by setting into motion ideas by which the wealth of the nation is enhanced.

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#### Promoters' Stock (Shares)

A special form of stock peculiar to England, sometimes also known as *Deferred Stock* (q. v.), or *Founders' Shares* (q. v.). Such stock is issued with limited and deferred privileges as payment for the services of the promoters, who have been instrumental in inaugurating a corporation.

In America, compensation of the promoter or promoters has tended to become standardized, and usually amounts to 10 per cent. of the company's common stock.

#### Promotion

See Promoter.

#### Property

See Personal Property, Real Estate, Real Property.

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#### Property Risk

That risk involved in lending money which varies according to, and therefore is determined by, the value of the net assets or net worth of the borrower. If a loan is well protected, the borrower should possess sufficient unpledged net tangible assets which if converted into cash would be sufficient to cover amount of loan, whether secured or un-

secured. In the case of bills discounted, bank or trade acceptances, or unsecured commercial paper where no collateral security is offered, there is always the presumption that the borrower has *current* assets, which if converted into cash, would be more than sufficient to liquidate the loan. The property risk can be determined by an examination of the borrower's statement and the lending bank should always determine whether the prospective borrower has already borrowed from other lending institutions, and in what amount.

The property risk is distinguished from moral and business risk. Together they constitute the classical three-fold divisions of a credit risk. Property risk is usually regarded as less important than the moral or business risk. (See Business Risk, Credit, Credit Risk, Moral Risk.)

#### Proprietary Company

Another name for *Controlling Company* (q. v.), or *Parent Company* (q. v.). A proprietary company is not an operating company.

#### Prospect

A possible customer; a person, firm, or corporation whose business is desired and solicited, but with whom no business relations have been established.

#### Prospectus

A typewritten or printed plan of organization of a new enterprise, or for the expansion of an existing enterprise, usually prepared by the promoters and their associates for the purpose of interesting financiers in the purchase of the securities. The prospectus usually contains detailed representations of the nature of the proposed corporation, the probable demand for the product, the technology and cost of production, plans for financing, location and initial size of the plant, and the grounds upon which profits are expected.

The prospectus is intended for distribution, not to the general public, but to the underwriters or financiers whom it is designed to interest in the proposition. The description of properties and securities for sale to the general public is called a circular, although to some extent, these terms are used synonymously. (See Bond Circular.)

#### Prosperity

That phase of the trade cycle characterized by business activity, as shown by the volume

of trade and bank clearings, rising prices, large profits, low percentage of business failures, high wages, liberal buying, etc. This phase of the business cycle usually follows the period of recuperation, which in turn, follows a depression. The close of a period of prosperity is likely to be characterized by inflated bank credit and currency, low bank reserves, high money rates, high commodity prices and wages, speculative activity and profiteering, until finally a crisis arises, which is a reaction against the period of high prices and marks the end of prosperity. (See Business Cycle.)

### Protective Devices

Being depositories of large amounts of cash and other valuables which are negotiable by delivery, banks are subject to attacks by hold-up men, burglars and safe-blowers. Defensive measures have kept pace with offensive tactics. Among the banks in larger cities, the employment of special guards in uniform is an almost universal practice. Their purpose is preventative, as well as furnishing a means of apprehending hold-up men in case an assault is attempted. The daring of hold-up men is in direct proportion to chances of success, and hold-ups are not likely where the promise of success is slight.

Modern banks are equipped with various kinds of protective equipment. Safes and vaults are now made with armor plate consisting of an alloy steel that is as nearly burglar-proof as possible. Other means of protecting a bank, and especially its cash, are:

(1) Electric signal systems communicating with a local burglar alarm company, prepared upon alarm to dispatch detectives in case of trouble. For night protection this system involves a periodic turning in of signals from electric signal boxes located in various parts of the bank building.

(2) Emergency alarms with buttons placed at the finger-tips of tellers to call special guards located at other stations in the bank.

(3) Protection of the paying teller and the cash in his cage by erecting bullet-proof, armored glass in front of the cage.

(4) Automatic door-closing devices operating from the paying teller's cage to close all means of escape to hold-up men who may attempt an assault.

(5) Time lock and a burglar alarm signal on the door of the vault or safe.

For the protection of checks against alterations and forgeries see Check Protecting Devices. Also see Identification, Finger-Print Identification, Vault.

### Protest

A declaration made by a notary public in behalf of the holder of a check, bill of exchange, or note, that presentment has been made and that the instrument has been dishonored (payment refused), and a protest that any loss arising shall be borne by the drawer and indorsers. Protest is not required of instruments which are drawn and payable in the same state, but in the case of all others, protest becomes imperative. Protest proceedings are admissible court evidence of presentment and refusal to pay, and bind the indorsers. When in doubt, it is always safe to have an unpaid instrument protested. For method of issuing protest papers, see *Notarial Protest Certificate*. (See Negotiable Instruments Law, Article 13.)

### Protested for Non-Acceptance

Protest of a time bill of exchange for refusal of the drawee to accept. If the drawee refuses to accept a bill upon presentment, it should be protested in order to prevent the discharge of the drawer and indorsers, except in the case of a bill drawn and payable in the same state. (See Negotiable Instruments Law, Article 13, section 260.)

### Protested for Non-Payment

See Protest.

### Protest Fees

Fees paid to the notary before whom protest is made, and any other incidental charges in connection with the protest of a negotiable instrument. Protest fees are originally paid either by the last indorser (who protests the instrument) or the maker. When paid by the last indorser (holder), he looks to the previous indorser for reimbursement; each indorser having recourse to the previous indorser for payment. The fees should finally be borne by the maker in the case of a check or note, or by the drawee in the case of a draft.

### Protest Waived

When there are no indorsements on a negotiable instrument or where the indorser writes "Protest Waived", or words of similar import on the instrument, protest is not necessary to hold the indorsers liable. According to the Federal Reserve Act, when notes are rediscounted for a member bank, they must be indorsed by such member, such indorsement automatically constituting a "waiver of demand, notice and protest."



**Provision Pit**  
See Pit.

**Proxy**

Authority given in writing legally witnessed, by which a stockholder confers upon another person the right to vote the stock owned by him. In most large corporations, many of the stockholders find it impossible, even if interested, to attend stockholders meetings. Since shares of stock usually carry the right to vote as one of the incidents of ownership, the right may be conferred upon someone else. In many cases stockholders are asked for their proxies by other stockholders who are more interested in the affairs of the corporation. Sometimes the secretary of the corporation requests proxies from all out-of-town stockholders.

The following is a customary form of proxy:

"Know all men by these Presents, That .....the undersigned, Stockholders in the .....do hereby appoint ..... true and lawful Attorney, with power of substitution, for.....and in....., to vote at the meeting of the stockholders in said ..... to be held at....., or at any adjournment thereof, with all the powers..... should possess if personally present, hereby revoking all previous proxies.

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Witness

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**Public**

See Professional.

**Public Accountant**

A professional accountant or auditor whose services are available for the auditing of books, installation of accounting systems, preparation of financial statements, tax returns, valuations, etc. If the public accountant passed an examination provided by the State, he is given a certificate and is entitled to style himself a *Certified Public Accountant* (q. v.). (See Auditor.)

**Public Administrator**

A public official who is appointed to administer the estates of persons whose heirs cannot be immediately determined or located, or who may be appointed in lieu of a private administrator. (See Administrator.)

**Publications of the National Monetary Commission**

See National Monetary Commission.

**Public Callings**

See Common Carrier, Public Utility Corporation.

**Public Commission**

See Public Service Commission.

**Public Credit**

A term applied to the credit enjoyed by a National Government, state, county, municipality, etc. The same principles govern public credit as commercial, agricultural, banking, and other forms of credit. Thus, a Government, state or municipality may have a good or bad credit standing, depending upon its reputation and ability to pay its obligations.

**Public Deposits**

See Government Deposits.

**Public Finance**

The subject which, "deals with the revenues of government, with their expenditure, and their administration."\*

Public finance includes the science of budgeting, the principles and administration of taxation, the expenditure of public revenues and accounting therefor. The Government in undertaking those functions necessary for promoting collective welfare—administration of the laws and courts of justice, protection afforded through the army, navy and police system, education and extension of public works—is concerned with financial principles just as any concern would be which might administer these functions privately.

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**Publicity Department**

A department organized among the larger banks usually under the supervision of a vice-president and in direct charge of a manager. In smaller banks the work may be

\* R. T. Ely: *Outlines of Economics*, pg. 643.

supervised by the cashier. The chief function of this department is to sell the bank's services and to create new business. In many instances, its activities are grouped together with those of the *New Business Department* (q. v.).

Bank publicity may be general (indirect) or direct. General publicity is that which makes an indirect appeal, usually through the medium of newspaper and magazine advertisements. The material most frequently used for this purpose is the financial statement. Direct publicity consists of advertising materials, circulars, pamphlets, etc., distributed to a mailing list of selected prospects or present accounts. These circulars may call attention to a new service, *e. g.*, a trust or foreign exchange department; it may be informative, making an appeal to a prospect to use some department of the bank now being neglected; or it may be entirely general in character for the purpose of maintaining contact.

Much has been said for and against bank publicity. Banks in the middle and far west have made greater use of publicity methods than those of the east. The nature of publicity required depends largely upon the type of institution, commercial banks, savings banks and trust companies all needing to appeal to different motives. Many commercial banks distribute among their customers and prospects a monthly analysis of business and financial conditions. Frequently house organs containing both inspirational and educational material are employed. Savings banks usually make an appeal on the importance of saving as an aid to business opportunity, a protection against reverses, and as preparation for old age. Trust company literature is still very largely informative, since the average person knows very little about trust company facilities, or the advisability of organizing an estate plan.

Other mediums of publicity applicable to all banking types are street car cards, theatre programs, window displays, trade papers, electric signs, billboards, pamphlets for enclosing with statements, exhibits at fairs, news stories, publication of addresses of officers, and booklets digesting current business conditions, and legislation affecting business and finance.

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#### Public Service Commission

Every State except Delaware, Iowa and Texas has established a Public Service Commission for regulating and supervising public utility corporations, both operating and financial activities. The purpose of these commissions is to harmonize the interests of the corporations, the public as consumers, and security holders. The personnel of these commissions are usually competent and fair-minded men, so that the commission regulation of public utilities has in most cases operated to the advantage of the investor. Regulation finds tangible expression in control of rates, franchises, capital issues, and uniform accounting reports. (See *Public Utility Bonds*.)

#### Public Service Corporation

See *Public Utility Corporation*.

#### Public Trustee

The exercise of trust powers by a governmental bureau or office. A public trustee office by which the functions of executor, administrator and trustee are exercised has been created by statute in New Zealand. A public trustee law became operative in England and Wales, January 1, 1908. Under its provisions trust functions are undertaken by an office established by the Government.

#### Public Utilities

See *Public Utility Corporation*.

#### Public Utility Bonds

Bonds which are the obligations of a *Public Utility Corporation* (q. v.) engaged in furnishing such facilities as electric light and power, gas, water, telephone, traction, etc., as distinguished from railroad and industrial bonds. Public utility bonds are usually secured by some kind of mortgage upon the properties of the issuing corporation. The demand for the services of public utilities has grown very rapidly since 1870, with the result that property values in all growing and progressive communities have undergone considerable enhancement. This situation may be expected to continue, so important are public utility corporations in city development and in raising the standard of American life. Consequently, their extensive properties are normally capable of providing ample and increasing security for bond issues, which, although not so well known as Government, municipal, and railroad bonds, are in high investment favor with generally higher yields.

Except Delaware, Iowa, and Texas, each state has created a *Public Service Commission* (q. v.) for the purpose of regulating the public utilities within its jurisdiction. It is their function to supervise the operations of public utility corporations, to require accounting and operating reports, and to approve or disapprove the issuance of new or additional securities, with a view to protecting the rights of the corporation, public, and investors. Securities bearing the approval of a public service commission are reasonably certain to possess all the qualifications of a thoroughly sound investment.

In testing the soundness of public utility bonds, the following points should be investigated: (1) desirability and possibility of growth of the territory served; (2) nature of the lien, *i. e.*, whether a first mortgage or lien junior thereto; (3) capability of the management; (4) satisfactoriness of mortgage provisions; (5) whether earnings show a fair margin of safety over operating expenses and interest requirements; (6) whether the equity behind the issue is sufficient to provide a fair margin of safety; (7) whether the franchise situation is satisfactory; and (8) marketability.

### Public Utility Commission

Same as *Public Service Commission* (q. v.).

### Public Utility Corporation

A corporation which supplies services regarded as indispensable to the consuming public. Railroads, traction lines, electric light and power, gas, telephone and telegraph, bus and ferry lines, and water companies, are public utility or public service corporations. In classifying the securities of these companies, however, railroads are placed in a separate division, since they are subject to inter-state commerce regulations, and are far more extensive than the other utilities.

Public utility corporations are operated under the law of public callings which requires these corporations (1) to serve all who apply for services, (2) to charge reasonable rates, (3) to charge equal (non-discriminatory) rates, and (4) to give adequate service. Railroads are subject to control by a governing body known as the Interstate Commerce Commission, and other public utilities come under the jurisdiction of the *Public Service Commission* (q. v.) of the state in which the utility is located.

Many public utilities have a monopoly in the field in which they operate which is granted by a *Franchise* (q. v.).

### Purchased Paper

Commercial paper which has been purchased outright, as distinguished from paper which has been discounted. The Federal Reserve Act defines it as "paper bought through brokers or others with whom the purchasing bank has no direct business relations."

### Purchase Money Bonds

Bonds given in exchange for funds which are to be used to purchase property by which they are to be secured. The term is also sometimes used to refer to bonds given by one corporation in exchange for stock of another corporation purchased by the former.

### Put

A negotiable contract giving the holder, for a specified time, the privilege to deliver or sell to the maker, a specified number of shares of a certain stock at a fixed price therein mentioned. A put is the opposite of a *Call* (q. v.).

### Put of More

See *Call of More*, *Put*.

### Puts and Calls

See *Put*, *Call*.

### Pyramiding

The use of paper profits as a basis for additional margin, thus permitting further purchases. The term is also applied to the use of collateral,—real estate, stocks, bonds, etc.,—the value of which is temporarily inflated, due to a boom, as a basis for buying more property for speculative purposes. Pyramiding is dangerous practice and is to be condemned.

### Pyrotechnics

An expression used in speculative circles to denote the rapid moving of the price of a stock up or down over a wide range, as a result of manipulation. The expression "gyrations" is sometimes used to indicate the same phenomenon.

### Pyx

See *Trial of the Pyx*.



## Q

### Qualifications of Directors

See Directors.

### Qualified Acceptance

See Acceptance.

### Qualified Indorsement

See Indorsement.

### Quantity Theory of Money

The theory that prices (and, therefore, the value of money) vary with the quantity of money in circulation. As used in this connection, money includes not only gold, but all forms of metallic and paper currency, credit instruments, bank deposits, etc.

The logic for the theory is found in the general economic principle, that the price of a given commodity depends upon its supply and demand. Since money is a commodity, its value rises and falls in accordance with its supply or quantity. If the quantity of money increases, its value decreases, *i. e.*, prices rise, though not necessarily, in proportion. Likewise, if the quantity of money decreases, its value increases, *i. e.*, prices fall. An increase in money or deposit currency based on gold without a corresponding increase in goods would tend to make money less valuable in terms of goods, and therefore, prices would go up. In other words, as the number of currency units plus credit units rises or falls relatively to the volume of goods to be exchanged (or more accurately, to the volume of exchanging among these goods), prices must rise or fall. Thus, prices are the resultant of dividing the total volume of business transactions by the total amount of money available to perform them.

Applied over the long-term, the quantity theory is undoubtedly incontrovertible. Proponents of this theory contend that the rise of prices in this country since 1850, and especially since 1896, is to be explained chiefly by the increased production of gold in the world since 1850, and the expansion of credit which has been based upon this increased gold supply. Since gold is a commodity which is not subject to decay or destruction, the total stock increases year by year, and in the last fifty years by an average annual increase of 2 per cent. So long as gold pro-

duction is maintained, therefore, the world stock will be augmented, and prices will climb. The effects of increasing the quantity of paper money without gold support are too well known to require further emphasis.

Some economists, while admitting the relation between the quantity of money and the general price level as stated above, maintain that prices rise, not because of an increase in the supply of money, but rather because of an increased demand for goods. Such increased demand compels higher prices, and the supply of money and deposit currency is automatically increased (especially wherever elastic currency is available) in order to perform the added money work made necessary by the augmented volume of trade and higher unit prices. The monetary history of the United States during and after the war is cited as proof of this contention. This apparent contradiction may be explained by stating that the quantity theory of money operates over the long-term. Seasonal or cyclical price changes are not to be explained in the same way, but rather in terms of supply and demand, *i. e.*, short-term market conditions. (See Gold Production.)

### Quarter

The United States silver 25 cent piece. It contains 86.805 grains of pure silver and 9.645 grains of copper alloy. It is legal tender in amounts not to exceed \$10 in any one payment, and may be redeemed in lawful money when presented in sums of \$20, or multiples thereof. (See Token Money.)

### Quarter Days

The days marking the beginning of each quarter of the calendar year, January 1, April 1, July 1, and October 1,—being the most usual bond interest payment dates. The dividends of many companies are also paid on these days.

### Quarter-Eagle

The United States gold coin with a denomination of \$2.50. It is no longer coined. (See Gold Coins.)

### Quarterly Disbursements

Dividends on stocks, and in many cases interest upon bonds, are paid quarterly. The heaviest bond interest disbursements occur

on January and July 1, the next heaviest occurring on the other quarter days, April 1, and October 1. One large New York bank which makes a specialty of acting as fiscal agent for large corporations and pays millions of dollars of interest coupons annually, has kept a record of the distribution of coupon maturities by months, in dollar amounts. The percentages which are the results of the experience of a thirteen year period (1907-1919 both inclusive), are shown below:

Month	Per cent. of total
January .....	20.46
February .....	8.84
March .....	4.34
April .....	8.62
May .....	6.28
June .....	2.48
July .....	19.73
August .....	10.18
September .....	3.37
October .....	5.41
November .....	6.89
December .....	3.40
	100.00

This tabulation shows that the amount of bond interest coupons paid in January exceeds that of all other months. Inasmuch as coupons usually represent semi-annual disbursements, it is reasonable to suppose that months related by a six months' interval should be nearly identical. This conclusion is borne out by the above statistics. The percentage for July is approximately equivalent to that of January. The next heaviest pair of months is the February/August pair, although the decrease in this case is more than 50 per cent. This is followed by the April/October, May/November, and March/September maturities. The lightest pair is that of June/December. If disbursements were evenly distributed throughout the year, each month would bear 8 1-3 per cent. of the total amount. From the tabulation it will be seen that only the January/July and February/August maturities are above the average; the rest are below.

On account of the large sums of money involved in making quarterly cash payments and the consequent withdrawal of large balances from the banks located in the chief money centers, and especially New York, call money rates are expected to, and usually do, harden at these periods. In other words, the quarterly disbursement periods are occasions for a temporary money pinch.

### Quarterly Settlements

See Quarterly Disbursements.

### Quarter Stocks

See Odd Lot.

### Quasi-Municipal Bonds

See Semi-Municipal Bonds.

### Quick Assets

Assets which, in the ordinary course of business, will be converted into cash; or which, in case of emergency, can be quickly realized upon without appreciable sacrifice. (See Current Assets.)

### Quit-Claim Deed

See Deed.

### Quorum

The Comptroller of the Currency requires that the by-laws of all National banks be in conformity with its own articles of association and the National bank act. The definition of what constitutes a quorum for the board of directors must be stated in the by-laws. The specimen by-laws which are furnished by the Comptroller of the Currency on request, provide that a majority of directors is required to constitute a quorum and that no business can be transacted without a quorum. It is accordingly the custom among all banks to provide that a majority of the board of directors be present in order to constitute a quorum for the transaction of business. (See Directors.)

### Quotations

Prices at which securities, commodities and other property for which there is a large and ready market are being currently sold, or prices at which they are being currently offered for sale, or which are being bid or offered.

Quotations on principal commodities and securities are of incalculable importance to the business world, as is shown by the space given to them by the daily newspapers. Speaking of the importance of security quotations, the House of Representatives Committee, which investigated the New York Stock Exchange said:

"Quotations on its floor determine the current value of all securities there traded in, which means the securities of all the greatest corporations in the country. Such quotations are adopted by the Courts and

Comptroller of the Currency as measures of value, and upon them banks base their amount to be lent on a given security."

The New York Stock Exchange reports all quotations, *i. e.*, actual selling prices, and bid and asked quotations at the close of each day's market but does not guarantee them. In fact, no official list of stock exchange quotations is kept; otherwise, the officials of the Exchange would find themselves in endless controversies over prices and stock transactions. Complete non-official quotation sheets, giving both stock and bond prices, are published daily by a private concern.

### Quotation Ticker

An instrument—in reality an electrical telegraphic typewriter which can be operated at a great distance—for recording quotations of bonds, stocks, foreign exchange, grain, cotton or other commodities. The instrument,

which is the most important item of equipment in every broker's office, prints quotations on a narrow paper ribbon which unwinds from a roll, and is familiarly known as tape. Each important exchange has its own ticker. (See Ticker.)

Ticker service is not confined to members of the respective exchanges. The service may be purchased by outsiders as well. The New York Stock Exchange owns and manages the New York Quotation Company, which reports quotations to member brokers in the Wall Street district, through the instrumentality of about 1100 tickers. The Gold & Stock Company, a subsidiary of the Western Union Telegraph Company, receives quotations from the New York Stock Exchange and transmits them by means of this instrument throughout the United States, and Canada, to anybody who may subscribe for the service. A large sum is paid to the Exchange for this concession. (See Quotations.)



## R

### Raid

An expression which denotes the free selling of stocks by professional operators who, because the market is temporarily overbought or because of unfavorable news or knowledge that the market is honeycombed with stop orders not far below current quotations, take advantage of the situation to depress prices in order to enable them to cover at a profit. The term is usually used in connection with the term bear. Market reviewers sometimes report: "The bears raided the market."

### Railroad Aid Bonds

Bonds issued by counties and municipalities for the purpose of rendering financial assistance to projected railroad companies,—especially in the Southern and Middle Western states during the reconstruction period following the Civil War. Some of the railroads were projected by dishonest promoters and in certain instances, were never built, or if started, abandoned and the proceeds of the bonds dissipated or pocketed in whole or in part. Where the railroads were never completed, many of the issues were repudiated, with the result that this class of bonds is very distinctly in public disfavor.

The legality of a bond issue for the purpose of aiding private enterprises is questionable and reverts back to one of the fundamental tests for a safe municipal bond—the legality of the purpose and authority for issue. Railroad aid bonds are investments to be avoided. Most reputable bond houses refuse to deal in civil bonds in aid of private enterprises.

### Railroad Bonds

Bonds of railroad corporations. They may be classified as follows:

1. As to Class of Lien
  - a. First mortgage
  - b. Second mortgage
  - c. General mortgage
  - d. Debenture
  - e. Adjustment
  - f. Income
2. As to Security
  - a. Mortgage issues
  - b. Equipment issues
  - c. Collateral trust issues

### 3. As to purpose

- a. Divisional bonds
- b. Extension bonds
- c. Equipment bonds
- d. Terminal bonds
- e. Consolidated mortgage bonds
- f. Refunding bonds.

Railroad bonds represent the most seasoned of corporation bonds, since they have been on the market longer than any other issues, and the value of underlying properties and earning power of the various roads are matters of historical record, and can be readily ascertained. (See Poor's and Moody's Manual, Combined.) As a class, therefore, railroad bonds enjoy a higher investment rating than public utility or industrial bonds.

The greatest drawback to railroad bonds is the narrow margin of net earnings that oftentimes prevails over bond interest charges. American railroads have a relatively high percentage of bonded debt to total capitalization. As of the close of 1922, the ratio between bonds and stocks of American railroads as a whole was approximately as 11 is to 8. (See Adjustment Bonds, Collateral Trust Bonds, Consolidated Mortgage Bonds, Debenture Bonds, Divisional Bonds, Equipment Trust, Extension Bonds, First Mortgage Bonds, General Mortgage Bonds, Income Bonds, Refunding Bonds, Second Mortgage Bonds, Terminal Bonds.)

### Railroad Earnings

Railroads of the United States are required to report their monthly earnings to the Interstate Commerce Commission. In order that a railroad income statement may be clear, the principal items are shown in the following pro forma illustration:

Gross operating revenue .....	\$10,000,000
Less, Operating expenses .....	7,200,000
	<hr/>
Net revenue from railway operations .....	\$ 2,800,000
Less, Taxes, uncollectible revenues and joint-facility rents (Dr. or Cr.) .....	400,000
	<hr/>
Net railway operating income (net after taxes) .....	\$ 2,400,000

Less, Equipment rents (Dr. or Cr.) .....	400,000
Net operating income (net after rents) .....	\$ 2,000,000
Add, Other (non-operating) income .....	500,000
Gross income .....	\$ 2,500,000
Less, Fixed charges .....	1,500,000
Net income .....	\$ 1,000,000
Less, Dividends on stock .....	800,000
Surplus (for period) .....	\$ 200,000

Operating expenses are divided in five general accounts, namely, (1) maintenance of way and structures, (2) maintenance of equipment, (3) transportation expenses, (4) traffic, and (5) general.

In the following table will be found the percentage of each of these main classifications of expenses to total expenses and to operating revenues for 74 principal roads in 1923 and 1922.

	% to total expenses		% to total revenues	
	1923	1922	1923	1922
Maintenance of way structures .....	16.4	16.3	12.8	13.0
Maintenance of equipment .....	30.2	28.6	23.6	22.8
Traffic .....	1.9	1.9	1.5	1.5
Transportation .....	47.4	48.7	37.1	38.9
General .....	3.3	3.5	2.6	2.6
Total, including other .....	100.0	100.0	100.0	100.0

## RAILROAD EXPENSES ANALYZED

**Railroad Equipment Bonds**

See Equipment Trust.

**Railroad Legislation**

The history of railroads in the United States is largely a matter of the conflict between the railroads and the Government, the former attempting to effect some means of co-operation in order to avoid unrestrained competition; the latter, on the other hand, attempting to break up forms of co-operation, to compel competition, and at the same time to control rates. The Transportation Act of 1920 marks the beginning of a new era of railroad legislation and attempts to harmonize the interests of private capital with the shippers, public, and railroad labor. On page 481 will be found an historical chart showing the evolutions of forms of railroad co-operation, control and legislation since 1830.

**Railroad Stocks**

Stocks of railroad companies, of which the most usual types are preferred and common. As in the case of industrial stocks, railroad preferred stocks are sometimes divided into two classes, *e. g.*, first preferred and second preferred (Western Maryland, Wheeling & Lake Erie), or prior lien preferred and ordinary preferred (Pere Marquette), or prior lien preferred and preferred (Chicago & Alton).

Railroad common stocks range in investment quality from poor to high-grade. None can be given a purely investment rating, although a number enjoy a semi-investment rating, *e. g.*, Atchison, Topeka & Santa Fe, Union Pacific, Canadian Pacific, New York Central, Pennsylvania, Atlantic Coast Line, etc. A number of railroad preferred stocks merit a sound investment rating, and are classed with bonds in so far as equities, margin of safety in earnings, and price stability, are concerned. In this class may be mentioned the preferred stocks of Union Pacific, Canadian Pacific, Atchison, Topeka

& Santa Fe, Cleveland, Cincinnati, Chicago & St. Louis, Reading Company, and Norfolk & Western.

Since railroad companies are required to report their earnings each month, and property values as determined by the Interstate Commerce Commission are available in many cases, these shares no longer constitute the medium for speculative funds that they formerly did. The Transportation Act of 1920, by delimiting earnings, by encouraging consolidations, and by ordering a balanced rate structure, has further tended to restrict speculative operations in railroad shares. While rather large swings in both directions have occurred in the prices of individual railroad shares in the past three years, the general average has moved within a comparatively small range.

The names of the 76 most important Class

Period.	Device Used by Roads to Secure Co-operation and Prevent unrestrained Competition.	Form of Control	Federal R. R. Legislation.
1830-1850		Unrestrained Competition.	
1850-1860	Agreements to maintain rates.		
1860-1870	Pooling—Traffic.	Control by State Legislation.	
1870-1887	Pooling—Money.	Judicial Control (State and Federal).	
1887-1898	Joint—Traffic Associations.	Commission with Advisory powers. (No power to fix rates.)	Act to regulate commerce (1887); Sherman Anti-Trust Law (1890).
1898-1904	Stock Control—formation of Securities Companies.	Commissions with mandatory powers (Power to fix rates subject to determination of reasonableness by Courts.	Elkins Amendment (1903) Hepburn Amendment (1906).
1904-1918	Consolidation (a) By purchase (b) By lease (c) By interlocking directorates.		Mann - Elkins Amendment (1910).
1918-1920	Governmental Control Regional co-operation.	Governmental Administration (Complete powers.)	Federal Control Act (1918).
1920-		Commission Control with Plenary Powers (full rate-fixing powers).	Transportation Act (1920).

EVOLUTION OF RAILROAD LEGISLATION AND CONTROL

1 railroad companies in the United States (based on annual gross revenues) arranged in alphabetical order, follow:

Ann Arbor, Atchison, Topeka & Santa Fe, Atlanta, Birmingham & Atlantic, Atlantic Coast Line, Baltimore & Ohio, Bangor & Aroostook, Boston & Maine, Buffalo, Rochester & Pittsburgh, Buffalo & Susquehanna, Carolina, Clinchfield & Ohio, Central of Georgia, Central R. R. of New Jersey, Chesapeake & Ohio, Chicago & Alton, Chicago, Burlington & Quincy, Chicago & Eastern Illinois, Chicago Great Western, Chicago, Indianapolis & Louisville, Chicago, Milwaukee & St. Paul, Chicago & North Western, Chicago, Rock Island & Pacific, Chicago, St. Paul, Minn. & Omaha, Cleve-

land, Cincinnati, Chicago & St. Louis, Colorado & Southern, Delaware & Hudson, Delaware, Lackawanna & Western, Denver & Rio Grande Western, Detroit & Mackinac, Duluth, South Shore & Atlantic, Erie, Great Northern, Gulf, Mobile & Northern, Gulf & Ship Island, Hocking Valley, Illinois Central, International-Great Northern, Kansas City Southern, Lehigh Valley, Long Island, Louisville & Nashville, Maine Central, Michigan Central, Midland Valley, Minneapolis & St. Louis, Minneapolis, St. Paul & Sault Ste. Marie, Missouri-Kansas-Texas, Missouri Pacific, Mobile & Ohio, Nashville, Chattanooga & St. Louis, New Orleans, Texas & Mexico, New York Central, New York, Chicago & St. Louis, New York, New Haven & Hart-



ford, New York, Ontario & Western, Norfolk Southern, Norfolk & Western, Northern Pacific, Pennsylvania, Pere Marquette, Philadelphia & Reading, Pittsburgh & Lake Erie, Pittsburgh & West Virginia, Rutland, St. Louis-San Francisco, St. Louis Southwestern, Seaboard Air Line, Southern Pacific, Southern Railway, Texas & Pacific, Toledo, Peoria & Western, Union Pacific, Virginian, Wabash, Western Maryland, Western Pacific, and Wheeling & Lake Erie.

### Rails

An expression used in stock market parlance and reviews to designate railroad stocks as a class, as distinguished from the "industrials," meaning industrial stocks. (See Railroad Stocks.)

### Raised Bills

Paper money the denominations of which have been fraudulently raised. Raised bills are much more frequent and persistent in their recurrence than counterfeits. There are two methods of raising the denominations on paper money. One is to cut off the figures on the corners of a large denomination and paste them over the figures on the corners of a smaller denomination. Another method is to bleach out by acid the figures of small denominations and skillfully insert higher ones with waterproof ink. Raised bills are much more readily detected than counterfeits. By knowledge of the engraved portraits which the genuine bills carry, it is a simple matter to distinguish a raised bill. Each denomination, of the various kinds of paper money carries a given engraved portrait. For instance, the \$1 United States note carries the portrait of Washington; the \$5 Federal Reserve note carries the portrait of Lincoln, etc. Paying tellers, receiving tellers, money clerks and other employees handling money should acquaint themselves with the portraits appearing on each denomination of various kinds of paper money. These are given in a chart under *Denominational Portraits* (q. v.).

### Raised Check

See Alteration, Check, Check Protecting Devices.

### Rally

An expression used in stock market parlance and literature to indicate a rise in prices following a sudden decline.

### Rate

See Bank Rate, Foreign Exchange, Money Market, Rate of Exchange, Rediscount Rate.

### Rate of Exchange

The market or commercial price at which a foreign currency is quoted; the price of the money of one country quoted in the money of another. "The rate of exchange is that rate expressed in terms of local currency which bills of exchange drawn on foreign currency payable at a foreign point, command."\* (See Foreign Exchange.)

### Rate of Interest

See Interest, Money Market.

### Rating

Grade; Classification. A credit rating is a letter or number used by a mercantile or other agency in its reports and credit rating books to denote the ability and disposition of various businesses (individual, partnership or corporation) to meet their financial obligations. (See Credit, Credit Rating, Grades.)

### Ratio

See Credit Barometrics, Current Ratio, Federal Reserve Statement, Mint Ratio, Reserve Ratio.

### Ratio of Current Assets to Current Liabilities

Same as *Current Ratio* (q. v.).

### Ratio of Current Assets to Total Liabilities

One of the tests applied to a financial statement by bank credit men in the appraisal of a credit risk. The purpose of this test is to determine the immediate position of the prospective borrower in case of forced liquidation. Fixed assets cannot be converted into cash in a short time; consequently if the current assets are sufficient to liquidate the entire liabilities, the position is regarded as extremely sound. That is to say, a 1 to 1 ratio would be highly satisfactory. Whenever bonds mature within a short time and no sinking fund or other assets exist with which to redeem the issue, a 1 to 1 ratio between current assets and total liabilities is obviously insufficient, unless it is intended to refund the bonds. Where there are no fixed liabilities, this ratio will be identical

\* L. H. Langston.

with the *Current Ratio* (q. v.). (See *Statement Analysis*.)

### Ratio of Debt to Net Worth

One of the tests applied to a financial statement by bank credit men in the appraisal of a credit risk. The purpose of this test is to determine the proportion of the capital used in the business which has been furnished by the owners as compared with that furnished by creditors, *i. e.*, the relation between "share capital" and "loan capital." Each type of business must set its own standard and this ratio should be studied from year to year in order to determine what ratio is normal to it. The idea of normality can also be gained by comparison with conditions among other concerns in the same line of business. If the proportion of total debt to net worth is too high, business solvency is endangered, because earnings upon borrowed capital may not be sufficient to pay the cost of carrying it.

Generally speaking, total debt should not exceed net worth. A business which has a low ratio of debt to net worth is in a better credit situation than one which has a high ratio. From a comparative standpoint, if the tendency from year to year is toward increasing net worth rather than increasing total debt, the condition may be regarded as favorable; contrariwise, as unfavorable.

(See *Statement Analysis*.)

### Ratio of Fixed Assets to Net Worth

One of the tests applied to a financial statement by bank credit men in the appraisal of a credit risk. The purpose of this test is to determine whether the investment in fixed assets has been furnished by the owners of the business. Properly the owners should furnish all the capital required for plant and in addition a considerable portion of the working capital, since it gives them greater power to expand their business and draw upon the credit of banks.

Generally speaking, the higher the ratio of fixed assets to net worth, the better the condition disclosed. (See *Statement Analysis*.)

### Ratio of Merchandise to Receivables

One of the tests applied to a financial statement by bank credit men in the appraisal of a credit risk. This ratio is determined by dividing the value of merchandise by the sum of the accounts and notes receivables. Usually these items constitute the greater part of the current assets, but they

are quite dissimilar in nature. Receivables represent claims against others, while merchandise represents possession of physical goods. The value of the former depends upon the credit standing of the names to which goods have been sold and therefore does not represent certain value, since experience shows that losses are bound to occur in converting receivables into cash. Merchandise, however, represents value in hand, since it may be sold for cash as well as for credit. On the other hand, profits have been anticipated in receivables, whereas merchandise is still carried at cost or market (whichever is lower). While it cannot be absolutely stated that receivables represent a better asset than merchandise, under normal conditions where credits are cautiously extended and where the merchandise is specialized in character and subject to wide market fluctuations, they are ordinarily regarded as superior.

The purpose of this ratio is to determine the relative balance between receivables and merchandise particularly with reference to (a) whether the business is overbuying or overproducing, and (b) whether the accounts are fully collectible. If receivables increase relatively faster than merchandise, it may indicate laxity in collection methods or a too liberal credit policy, but if merchandise increases relatively faster than receivables, then overbuying or overproducing may be indicated. Generally speaking, a swing toward receivables accompanied by a rising current ratio is a favorable indication. (See *Statement Analysis*.)

### Ratio of Merchandise to Sales

Same as *Merchandise Turnover* (q. v.).

### Ratio of Net Profits to Net Worth

One of the tests applied to a financial statement by bank credit men in the appraisal of a credit risk. The purpose of this test is to determine the capacity of the business to make sustained profits over a period of time. The rate of profits for a single year is not conclusive nor necessarily significant. The period of review should include both prosperous and depressed times. In applying this test, note should be taken of the following points: (1) whether the rate of net profits is normal for the type of business in question; (2) to what extent profits are due to a rise in inventory values; and (3) whether the trend of the ratio is upward, downward, or stationary. (See *Statement Analysis*.)

**Ratio of Plant to Net Worth**

Same as *Ratio of Fixed Assets to Net Worth* (q. v.).

**Ratio of Reserves to Liabilities**

See Reserve Ratio.

**Ratio of Sales to Receivables**

Same as *Account Turnover* (q. v.).

**Reaction**

This term is used in a specific and general sense. A reaction in the stock market or of a special stock means a reversal of the price trend which up to the time of the reaction has been upward. A temporary reaction in prices in an advancing market is sometimes said to be normal and healthy. In a general sense, also, reaction means a decline in the volume of business transacted in the country, *i. e.*, a period of depression. (See Business Cycle.)

**Readily Marketable Staples**

As defined by the Federal Reserve Board: "An article of commerce, agriculture, or industry of such use as to make it the subject of constant dealings in ready markets with such frequent quotations of price as to make (a) the price easily and definitely ascertainable, and (b) the staple itself easy to realize upon by sale at any time." (Regulation C, Series of 1920, A 1.)

According to rulings of the Federal Reserve Board, while non-perishable commodities are not expressly restricted as eligible staples, banks, as a matter of prudence, should not consider as eligible any staple which is in its nature so perishable as not to be reasonably sure of maintaining its value as security, at least for the life of the draft which is drawn against it. It has been ruled by the Federal Reserve Board that automobiles, whiskey in bond, and sacramental wines, are not readily marketable staples.

**Readjustment**

This term has two meanings:

(1) A term similar in its meaning to reorganization, the chief difference being that in the former, foreclosure proceedings and reorganization are forced upon a company by its creditors or bond and stock holders, while a readjustment is made voluntarily on the part of the security holders who realize that it is best for their own interests. In the case of a readjustment, the capital accounts

are modified in order to reduce fixed charges, but in the case of reorganization, rearrangement of finances makes recapitalization necessary. (See Recapitalization.)

(2) That phase of a business cycle following a crisis, or panic and emergency liquidation, in which the normal equilibrium between demand and supply is in the process of being restored. It is characterized by a curtailment of production in most lines but in varying degrees, by achieving lower production costs through increased efficiency in labor and management, by lower prices, smaller profits, greater thrift exercised by consuming public, etc. The readjustment period precedes the period of recuperation which leads finally to prosperity. The period of readjustment immediately follows the period of industrial or business depression. (See Business Cycle.)

**Real Estate**

Land and buildings, and other permanent fixtures. Mortgage companies, real estate brokers, agents and operators classify land as between rural, farm, and urban (city) property. The latter also includes suburban property. City real estate is further classified as essential and non-essential. Residences, and business property (stores, offices, and factory sites) are essential; theatres, museums, club houses, churches, and other buildings of like character, also outlying vacant land, is non-essential.

Residential property is subdivided into single and multiple family houses (apartment or tenement houses). Business property is subdivided into retail, wholesale, factory, and office buildings. Of business property, buildings occupied by retail stores usually offer the highest class of security. (See Real Property.)

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**Real Estate Board of New York**

See New York Real Estate Exchange.

**Real Estate Bonds**

Bonds secured by mortgages or trust conveyances of real estate. In the investment sense, real estate bonds are a series of bonds issued in convenient denominations with a mortgage on real estate as security. Usually such bonds are issued by a mortgage or investment company, which, in addition to furnishing mortgage security, guarantees the bonds by indorsement. *Mortgage Certifi-*



*ates* (q. v.) are a variant of real estate bonds.

The investment quality of real estate bonds depends upon (1) the productivity of the mortgaged real estate; (2) the ratio of bonds issued to the conservative value of the mortgaged property; (3) whether the real estate is adequately insured; (4) provision for amortization of the loan by the mortgagor, and (5) the financial standing of the issuing company. Where real estate bonds are lawfully issued and in conformity with conservative principles of mortgage finance, they are comparable in safety with mortgage loans, and municipal and railroad bonds. (See Mortgage Bonds, Mortgage Loans.)

### Real Estate Loans

See Mortgage Loans.

### Real Estate Mortgage

See Mortgage, Mortgage Bonds, Mortgage Loans.

### Realization

The process of converting assets,—securities, receivables, merchandise, or fixed property, etc.,—into cash by sale. It is a variant of the term sale, or selling, whether the sale is in the ordinary course of business, a forced sale, or profit-taking sale.

### Realization Value

The price at which an asset is actually sold, as distinguished from its book, cost, or inventory value; the prices realized through liquidation.

### Real Property

Land, buildings and unmovable fixtures attached to land or buildings. Ownership of land includes ownership of minerals below the surface and the space above. In farm property, fences, wells, trees, and other unmovable structures are classified as real property. (See Personal Property, Real Estate.)

### Real Stock

“Long” stock; stock held and deliverable by outright or margin owners, as distinguished from stock which has been sold short.

### Realty

See Real Estate, Real Property.

### Rebate

In banking practice, a deduction, draw-back, allowance, if a borrower pays interest in advance on a six months' note and then by consent of the lender, pays off the debt one month before maturity. Wherever a note is liquidated before maturity with the lender's consent, the borrower is entitled to receive back interest for one month. This is called a rebate of interest.

### Rebated Acceptance

The same as *Anticipated Acceptance* (q. v.).

### Recapitalization

In a reorganization, the finances of a corporation are recapitalized; that is, there is usually a cancellation of the outstanding capital issues which are supplanted by new issues. The purpose of recapitalization usually is to reduce the amount, and change the character, of bonds outstanding in order to decrease fixed charges; and to change the amount and priorities of the different issues of stock. (See Reorganization.)

### Recapture Clause

Part of section 15a of the Interstate Commerce Act, as amended in section 422 of the Transportation Act of 1920. Under this clause, if any carrier receives for any year a net railway operating income in excess of 6 per cent. of the value of its railway property, it must pay over one-half of such excess to the Commission for the purpose of establishing and maintaining a general railway contingent fund. The other half of the excess must be placed in a reserve fund. The carriers which earn in excess of 6 per cent. on property value may draw upon this reserve fund to the extent that its net railway operating income for any year is less than a sum equal to 6 per cent. of the value of its property devoted to the service of transportation. When this fund equals 5 per cent. of the value of its railway property, such excess railway operating income as is payable to the carrier may be used for any lawful purpose, including extra dividends.

This clause was sustained in a decision rendered in December, 1923, of the United States Supreme Court in an appeal taken by the Dayton-Goose Creek Railway Company (in which nineteen other large railroads joined) from the decision of the United States District Court for the Eastern District of Texas.

The general railway contingent fund is not distributed to the roads earning less than 6 per cent. on their property values, as is sometimes erroneously supposed, but constitutes a revolving fund from which the so-called "weak" roads may borrow upon giving satisfactory security.

### Recede

A term indicating a setback in commodity and security prices; a decline or shrinkage in values.

### Receipt

An evidence of payment; a written acknowledgment given by one who receives money or other property to one who pays money or delivers property. The use of formal receipts has been practically abandoned in modern business. It is more customary for creditors to render statements of account to debtors periodically, and if payment is made in cash, the statement is stamped, "Paid." Payments are usually made by check, however, and since the check must be indorsed by the payee (creditor) it constitutes a satisfactory evidence of payment after it has been returned to the drawer by his bank. Many concerns print upon their statements a notice to the following effect: "No receipt necessary. Your cancelled check is your voucher." An ordinary receipt acknowledging payment of a debt, for instance, is non-negotiable, whereas a warehouse receipt can be assigned by indorsement. (See Cancelled Checks, Temporary Receipt, Trust Receipt, Warehouse Receipt.)

### Receivables

A general term to include the combined aggregate of accounts and notes receivable.

### Receiver

A person appointed by a court, usually at the instance of a creditor, or group of creditors, to wind up the affairs of an insolvent concern. In some cases where the insolvency is due to mismanagement and the concern's condition is not hopeless, or where public policy demands continuance of the enterprise, as in the case of a public utility, the receiver's duties consist in the rehabilitation of the affairs of the embarrassed concern. The receiver is at all times under the direction of the court and has no powers other than those conferred by the court. In reality, the receiver acts for the creditors of the concern and replaces the former management. From a legal point of view, the re-

ceiver terminates the business or continues it for the benefit of the creditors rather than for the owners. (See Receivership, Reorganization.)

### Receiver's Certificates

Bonds sold by a *Receiver* (q. v.) with the approval of the court, to provide working capital for an insolvent concern, the affairs of which are to be rehabilitated by the receiver. Issuing receiver's certificates is the most convenient means by which additional capital can be secured to revive a business in straits, since business failures are often caused by a lack of adequate capital.

In order to procure a ready market for receiver's certificates, the court usually permits them to take precedence over first mortgage bonds, or other secured debts, especially in the case of a railroad, or other public utility corporation, where public policy demands its continuance as a going concern. They are usually short term obligations and are sometimes secured.

Due to the conditions under which they are issued and practical certainty that both principal and interest will be paid, receiver's certificates are entitled to an investment rating at least equal to the first mortgage bonds of the same company. Receiver's certificates are not preferred claims, such as taxes and wages.

### Receivership

The placing of a concern under the managerial control of a receiver appointed by a court and who acts for the benefit of creditors, and away from the control of the owners or stockholders. The immediate cause of a receivership is the inability of a concern to meet its obligations. The purpose of a receivership may be: (1) to liquidate the assets and distribute them first to the creditors and then to the owners according to law; or (2) to rehabilitate and preserve the property as a going concern; that is, to place it on its feet by making it an income-producing unit.

Application for a receivership may be initiated by a committee of general creditors, by the trustee for bondholders who holds the indenture securing bonds upon which there has been default in the payment of interest or principal, or by the officers of the concern itself.

The degree of insolvency and the nature of the business determine whether the business should be liquidated or continued as a going concern. Courts are usually reluctant to liquidate businesses affected with a public interest, such as public utility corporations.

The National bank act gives the Comptroller of the Currency power to appoint a receiver to liquidate the affairs of an insolvent National bank. Insolvent National banks can be liquidated only in accordance with the provisions of the National bank act; *i. e.*, the Federal bankruptcy laws do not apply. The following excerpt is taken from the Act of June 30, 1876, (Ch. 156, sec. 1):

"Whenever any National banking association shall be dissolved and its rights, privileges and franchises declared forfeited, or whenever any creditor of any National Banking Association shall have obtained a judgment against it in any court and made application accompanied by a certificate from the clerk of the court stating that such judgment has been rendered and has remained unpaid for the space of thirty days, or whenever the comptroller shall become satisfied of the insolvency of the National Banking Association, he may, after due examination of its affairs, in either case, appoint a receiver, who shall proceed to close up such association, and enforce the personal liability of the shareholders."

### Receiving Teller

The teller, sometimes known as the second teller, whose function it is to receive deposits of cash items from customers over the window. His duties are exactly opposite to those of the paying teller, but the two tellers jointly handle the inflow and outflow of the bank's cash. In a commercial bank, the deposits over the receiving teller's window consist of cash (metallic and paper money), checks, drafts, and matured coupons; checks being in the great majority. The receiving teller receives only those deposits which are the equivalent of cash, and for which the depositor receives credit at the time of deposit before collection is actually effected. Checks may not be drawn on uncollected balances, and interest on out-of-town checks is deferred until collection is made. All items, except cash, are subject to cancellation of credit in case they are returned unpaid.

The receiving teller's responsibilities are second in importance only to those of the *Paying Teller* (q. v.). In receiving deposits he is required to observe the following points:

(1) Compare the title of the account on the passbook with that on the deposit slip for agreement. This is important since depositors may have several special accounts,

*e. g.*, payroll account, dividend account, interest coupon account, ———, as treasurer account, sinking fund account, etc.

(2) The deposit slip must be correctly dated. It is an original entry record and as such it is admissible into court as evidence. If found to be incorrect, the receiving teller should correct it.

(3) After separating the cash from the checks, the cash should be counted first. Should the cash be in excess of the amount listed on the deposit slip, it is advisable to notify the depositor immediately over the telephone. The depositor's instructions may be to increase the deposit by the difference, or to return the amount of the difference. If the cash is short, the amount of the deposit is reduced accordingly. In this case the depositor should be required to submit a corrected deposit slip.

After the cash is counted, the amount is entered on the cash sheet and the cash amount on the deposit slip checked to indicate that it is correct and the entry recorded. While the cash is being counted, it should be examined for counterfeits and raised bills.

(4) Prove the checks with their listing on the deposit slip, or with the adding machine list accompanying it. While theoretically, the receiving teller should examine the indorsement of all the checks deposited, it is usually only practical for him to examine the indorsement upon the last check in a bundle. Whenever checks in large volume are deposited, they are not examined in detail at the time of receipt, because of the time it would consume. Entry is made in the passbook to correspond with the deposit slip and is subject to revision, if later found to be incorrect. The work of detailed examination of a check is left to the receiving teller's clerks, or to an hour in the day when the receiving teller is not busy at the window. In practice, it is only possible for the receiving teller to verify the actual cash with each deposit, the checks being examined and proved, in case of volume, by means of the *Block System* (q. v.).

### Recoinage

The melting of abraded, mutilated, and short weight coins, and manufacturing them into new coins. This expense is borne by the Government mint. (See *Light Coins*, *Light Gold*.)

### Reconciliation of Accounts

The verification by a bank of its accounts with depositors. Periodic reconciliation of



accounts is one of the important tests of clerical efficiency and accuracy in handling bank accounting transactions. The most approved and convenient means of reconciling accounts is to attach a reconciliation blank as a stub or separate form to each statement of account as rendered. These are usually forwarded to customers monthly or other period, or when they call in person. The reconciliation blank requests the customer to report the correctness of the statement immediately and to note any errors. When the reconciliation blank is returned signed, a mutual verification of accounts has been established. If errors are reported the bank can proceed to trace and investigate them, and if in error, the difference is adjusted.

The following is a typical form of reconciliation blank:

#### RECONCILEMENT BLANK

Please Return Promptly

.....19.....

TO THE ..... BANK.

Your accounts rendered to the close of business ..... showing balance \$..... due ..... agree with our books, with the exceptions noted below.

Yours truly,

.....  
(Authorized Signature.)

Please use signature of  
Officer or Principal as  
now authorized to us.

#### Reconstruction

This term has two meanings:

(1) A term used in much the same sense as readjustment; meaning that phase of the business cycle in which business is attempting to restore the normal equilibrium between supply and demand. (See Readjustment.)

(2) The English equivalent of the American term *Reorganization* (q. v.).

#### Recourse

In general, the term indicates that a transaction, such as a purchase or sale, is made conditionally; for instance, that a buyer accepts an article from a seller with the provision that if it is not what it is represented to be, the buyer is entitled to a cancellation of the contract, or to compensation for any loss sustained thereby.

In banking, the term is used in a certain form of conditional indorsement. Whenever an indorser wishes to protect himself against any default or technical irregularity on the

part of any other indorser, he gives his indorsement to a check or draft "without recourse." (See Indorsement.)

#### Recovery

This term has three meanings:

(1) Whenever a bank collects a note, or a part payment thereon, that has been previously written off as a loss, and charged to undivided profits, it is known as a recovery. Since the amount of such a recovered note has already been charged to undivided profits, it is allowable to credit the undivided profits account for the amount recovered.

(2) As used in financial reviews, the term signifies an advance in prices following a previous decline.

(3) In a broad commercial sense, the term is roughly equivalent to business revival or recuperation. It indicates a period of business betterment following a period of liquidation and depression. (See Business Cycle.)

#### Redeemable

Both bonds and preferred stock are sometimes issued with the redeemable feature; that is, optional retirement before the obligatory maturity. (See Callable Bonds, Optional Bonds, Preferred Stock.)

#### Redeemable Bonds

See Callable Bonds, Optional Bonds.

#### Redemption

The act of redeeming a debt; payment of a debt; retirement of an issue of bonds or notes. The cancellation of a debt whether on a date prior to maturity, or upon the date of obligatory maturity.

#### Redemption Agent

An officer in the United States Treasury at Washington, who is charged with the details of receiving from and issuing to National banks, all circulating bank notes, and who maintains all necessary books of record in connection therewith. It is only through the redemption agent that National bank notes which are unfit for circulation can be presented for redemption and reissue. Federal Reserve banks supply all other forms of money.

Formerly this name was applied to a National bank located in a central reserve or reserve city which was designated to redeem the National bank notes of other National banks not located in such cities.

The Act of June 20, 1874 abolished this practice, and National bank notes are now redeemable only at the bank of issue or at the Treasury Department in Washington.

### Redemption Bonds

Practically the same as *Refunding Bonds* (q. v.). To be precise, the term redemption bonds should be reserved for issues supplanting those called for redemption, whereas the term refunding bonds should be reserved for those supplanting maturing issues. Redemption bonds are not to be confused with redeemable, *i. e.*, optional bonds.

### Redemption Check

A special form of check issued by banks, members of a clearing house association, in payment of items which have passed through the clearing house, but which are not acceptable by the drawee bank because of technical irregularities or invalidities, and therefore returned. Redemption checks are payable only to members of the clearing house association, are not negotiable, and are payable only through such clearing house association.

### Redemption Fund

This term is used in several different connections. The Federal Reserve Act requires that a redemption fund be maintained by each Federal Reserve bank with the United States Treasurer, for the redemption of Federal Reserve notes, in case they are presented to the U. S. Treasurer for payment. This fund must be equivalent to at least 5 per cent. of the amount of notes outstanding. The same provision applies to Federal Reserve bank notes, and National bank notes. (See Five Per Cent. Redemption Fund, Federal Reserve Bank Notes, Federal Reserve Notes, National Bank Notes.)

The Gold Standard Act of 1900 provides for the redemption in gold coin of United States notes or "legal tenders" when presented to the Treasury. In order to secure prompt and certain redemption of these notes, the Secretary of the Treasury is required to set apart in the Treasury, a reserve fund of \$150,000,000 in gold coin and bullion, which may be used for this purpose alone. If, on account of redemption of these notes, the fund falls below \$100,000,000 the Secretary of the Treasury is authorized to restore the fund to the original amount by issuing United States bonds therefor. (See Gold Standard Act of 1900.)

### Rediscount

A term given to the process of discounting a second time, commercial paper (notes, acceptances, and bills of exchange) by one bank for another, or by a Federal Reserve bank for a member bank; also to such rediscounted paper itself. Since the Federal Reserve System has been in operation the term applies almost solely to the discounting of paper by a Federal Reserve bank for a member bank. In substance, however, any note is rediscounted whenever an indorser negotiates it.

Even before the Federal Reserve System, rediscounting was a common practice among banks. Banks which had exhausted their loanable resources or lacked sufficient funds to meet their obligations, resorted to this practice as an expedient to obtain additional funds. Consequently, it was often regarded as an evidence of weakness on the part of the borrowing bank.

Rediscounting is one of the chief features and facilities offered by the *Federal Reserve System* (q. v.). Section 13 of the Federal Reserve Act empowers Federal Reserve banks to discount notes, drafts, and bills of exchange for agricultural, industrial, or commercial uses and known as *Eligible Paper* (q. v.), as distinguished from paper issued for the purpose of carrying or trading in real estate, stocks or bonds other than Government bonds, or other non-commercial transactions. The tests of eligibility for rediscount are largely left to the Federal Reserve Board for definition, and are described in detail in the *Federal Reserve Board Regulations* (q. v.), and in the opinions of its counsel.

The rediscount process practically insures adequate banking accommodations to all legitimate commercial borrowers; since eligible paper carried by member banks is always subject to rediscount, thus constituting a secondary reserve. Rediscounts in the possession of Federal Reserve banks becomes the collateral basis for the issue of Federal Reserve notes, which constitute the only elastic currency medium of the country.

There is no limitation on the aggregate amount of commercial paper which a member bank may rediscount with a Federal Reserve bank, except for paper issued for agricultural purposes or based on live stock and having a maturity not exceeding six months. This is limited in the discretion of a Federal Reserve bank to 99 per cent of the borrowing bank's capital stock. The limitation upon the amount of rediscounts allowable under a single name is the same as applies to

National bank loans to one borrower. (See Limitations on Bank Loans, Rediscount Rate.)

### Rediscount Rate

The rate of interest (or discount) charged by a Federal Reserve bank for rediscounting commercial paper, or for advances made with commercial or Government paper as collateral, for member banks. The rate may, and usually does, vary in the separate Federal Reserve districts, each Federal Reserve bank having power to change the rate applicable within its district, with the approval of the Federal Reserve Board.

For advances as distinguished from rediscounts, the rate may also vary according to the class of collateral offered, which is usually classified as follows: (1) commercial paper; (2) bankers' acceptances; (3) United States certificates of indebtedness; and (4) United States war loan bonds. But unless otherwise specified, the term refers to the rate on commercial paper security.

The rediscount rate is dependent upon several factors, among which are the open market rate for commercial paper and bankers' acceptances, the rate on call and time loans secured by Stock Exchange collateral, and the Federal Reserve ratio of reserves to deposit and note liabilities. There is no better index of regional credit conditions than that furnished by the ratio of reserves to combined deposit and note liabilities of the separate Federal Reserve banks. As a general principle, a high ratio of reserves to deposit and note liabilities, indicates easy credit conditions, and as the ratio rises, the rediscount rate may be safely lowered. Conversely, a low ratio of reserves to deposit and note liabilities, especially when near the legal minimum, indicates that the resources of the bank have already been largely utilized, whence a higher rediscount rate becomes necessary as a means of discouraging further borrowing. The rates of discount effective at the central banks of Europe, particularly in England, also may lend the weight of their influence.

There has been considerable controversy concerning the relation which should exist between the rediscount rates of the Federal Reserve banks and open market rates. The central banks of Europe have long followed the practice of keeping the rediscount rate slightly above open market rates. The theory underlying this principle is that the rediscount privilege at the reserve or central banks should be used only in times of stress or credit expansion; that in normal times the

central reservoir of credit should remain untouched, member banks furnishing whatever accommodation is required without resorting to rediscounting. In other words, the rediscount rate should be above open market rates as a means of discouraging rediscounting except when necessary, since the process would always be unprofitable to the borrowing banks. If rediscount rates are below the open market, rediscounting becomes a profitable transaction, and member banks are likely to be stimulated to resort to the privilege, when there is no need for it. In the United States, however, it is somewhat difficult to determine which class of paper should be taken as representative of the true open market rate. (See Progressive Discount Rates, Rediscount.)

### Redraft

The name given to a draft which is drawn on the drawee of a bill of exchange for the amount and protest fees of a previous draft which the drawee (who was to have paid it) dishonored.

### Refined Sugar

See New York Coffee and Sugar Exchange.

### Refunding

The process of refinancing a debt which cannot conveniently be paid when due. More especially it consists of selling a new issue of bonds from the proceeds of which a maturing issue will be retired. Railroads and other public utility corporations secure a large part of their capital by means of bond issues which are never intended to be permanently retired. Instead, capital is permanently secured by the refunding process, which is legitimate finance where property values are kept intact. (See Refunding Bonds.)

### Refunding Bonds

Bonds issued for the purpose of providing funds to retire bonds previously issued and about to mature. Refunding bonds should not be authorized to exceed the amount of the original issue (except when mortgages are consolidated), and should be for the same purpose. To make clear the purpose of a refunding issue, it is advisable that the title be clarified by adding a word descriptive of such purpose; thus, refunding water bonds, or refunding first mortgage bonds. Before investing in refunding bonds, an investigation of the legality of the refunding issue, as well



as the status of the original bonds is advisable.

In the case of civil refunding bonds, *i. e.*, bonds of states, counties, and other political subdivisions, an arbitrary statutory limit is placed on their term in some states. In fact, some states and their political subdivisions are altogether prohibited from issuing refunding bonds. In no case should civil refunding bonds be allowed when the asset purchased by the proceeds is not permanent. Refunding bonds issued to replace bonds the proceeds of which were used to acquire parks, playgrounds or land for streets are justifiable and permissible, but not for school buildings, fire stations and apparatus, etc.

### Refunding First Mortgage Bond

A refunding bond (usually issued by a railroad or public utility corporation) which is secured by a first mortgage and having, therefore, the same security as the issue whose place it takes. Refunding first mortgage bonds are not to be confused with *First Refunding Mortgage Bonds* (q. v.).

### Regional Bank

Each of the twelve Federal Reserve banks is known as a regional bank, or regional reserve bank, because each serves a single, clearly defined Federal Reserve district. Before the passage of the Federal Reserve Act, two plans were proposed. One recommended the establishment of one central reserve bank (the Aldrich Plan), such as exists in England, France and Germany. The other provided for "regional banks, each to be operated by a different board of directors and owned by member banks within its district." The latter was adopted in order to prevent concentration of control in the East. Although each regional bank is a separate institution and serves a given territory, cooperation of the twelve regional banks is secured through control by the Federal Reserve Board. For instance, this body has power to require one Federal Reserve bank to rediscount the discounted paper of another. Thus, the regional banks combine the features of centralization and decentralization.

### Registerable as to Principal Only

When the principal, and not the coupons of a bond may be registered in the name of the owner, it is said to be "Registerable as to principal only." (See Registered Bonds, Registered Coupon Bonds.)

### Registerable Bonds

See Registered Bonds.

### Registered Bonds

Classified as to form, bonds may be registered or coupon bonds. Registered bonds may be subdivided into those which are "registered both as to principal and interest," and "registered as to principal only."

In a registered bond the name of the owner is written on its face and it cannot be negotiated except by indorsement and transfer on the books of the issuing organization. In other words, registered bonds are transferred in the same manner as a stock certificate. The bonds contain a form of assignment and transfer on the reverse side. Registration is usually a privilege offered optionally in the sale of certain issues of coupon bonds to appeal to those investors who may wish to avail themselves of the opportunity to protect the equitable owner, in case of theft.

The registration of bonds necessarily entails the maintenance of complete records by the issuing organization. Usually, therefore, a bank or trust company is appointed to act as registrar. The registrar maintains the necessary records which show the owner's name and address, and when sales occur, *i. e.*, the name of the transferor and transferee. In this way, the ownership of each bond can be traced.

When bonds are registered as to principal only, coupons are attached, but such coupons are negotiable by delivery just as those detached from coupon bonds. The principal, however, can only be negotiated by indorsement and transfer of title to the buyer on the books of the registrar. These are known as registered coupon bonds.

When bonds are registered both as to principal and interest, no coupons are attached. Checks for interest are remitted to the registered holder at each coupon date and for the principal at maturity.

The market price of registered bonds is usually somewhat less than coupon bonds of the same issue, because of the inconvenience incident to transfer.

### Registered Coupon Bonds

Coupon bonds which are registered as to principal only. Coupons attached to such bonds are negotiable by delivery, and are payable to bearer, just as those attached to coupon bonds.

### Registered Stock

Stock which cannot be transferred without placing the signature of the owner upon the

books of the issuing corporation and delivery of the certificate. The owner of the certificate may, however, appoint an attorney to act in his stead.

### Registrar

See Stock Registrar.

### Registration of Mortgages

According to the New York Banking Law, "every mortgage and every assignment of a mortgage taken or held by a savings bank shall immediately be recorded or registered under the Land Registration Law in the office of the proper recording officer of the county in which the real property described in the mortgage is located."

See Torren's System of Land Title Registration.

### Registration Privilege

See Registered Bonds.

### Regular Collateral

See Collateral.

### Regular Dividend

See Dividend, Extra Dividend.

### Regular Lot

The standard unit of trade on a stock or produce exchange; the full or *Board Lot* (q. v.).

### Regular Way

One of the methods of trading on the New York Stock Exchange. (See Methods of Trading.)

### Regulations of the Federal Farm Loan Board

See Federal Farm Loan Board Rulings and Regulations.

### Regulations of the Federal Reserve Board

See Federal Reserve Board Regulations.

### Rehypothebate

To repledge; to pledge collateral a second time. Whenever a bank, broker, or other lender advances funds against collateral (in the form of stocks, bonds, or notes) and uses the collateral so pledged to secure in turn a loan from another lender, the process is called rehypothecation. The most typical

example of rehypothecation is that which occurs when stock exchange brokers repledge collateral held as security against balances due on margin accounts with a bank as security for a loan. Member banks sometimes pledge securities held against customers' loans as collateral for loans from a Federal Reserve bank. Rehypothecation is usually legal, provided notice is given to the borrower, and actual conversion does not take place. (See Hypothecate, Pledge.)

### Rehypothecation

See Rehypothecate.

### Reichsbank

The Imperial Bank of Germany. (See Bank of Germany.)

### Reichsmark

Same as mark. (See Foreign Moneys—Germany.)

### Reimbursement Draft

A draft remitted by a foreign bank in payment of items (bills of exchange, checks, postal orders, etc.), forwarded to it for collection. For example, suppose bank "A" in New York sends a draft for one thousand pounds to bank "B" in London for collection, with instructions to remit the proceeds by draft. Bank "B," upon collecting the funds, will forward a draft to bank "A" drawn upon a domestic bank, perhaps bank "A" itself, for one thousand pounds, less collection charges.

### Reinvestment

Buying additional securities with the interest and dividends on present holdings, or new securities with the proceeds of sale, or funds realized upon maturity of old ones. The term usually refers to the investment of the principal of bonds which have matured, or interest derived therefrom. Since the heaviest bond and interest coupon maturities fall on January and July first, a large demand for reinvestment of capital occurs at these periods.

### Reis

A Brazilian and Portuguese money. (See Foreign Moneys.)

### Release

In general, the relinquishment or discharge of a contract or agreement due to its satisfactory fulfillment, or otherwise. A mort-

gage is released when the holder has received payment for the debt. Evidence of the release is given by the execution of an instrument called, "Release of Mortgage," signed by the mortgagee and recorded in the office of the Registrar of Deeds.

### Remainder-Man

The person who receives the principal (or corpus) of an estate in accordance with the terms of the trust created by the benefactor (trustor). The remainder-man may come into possession of the estate upon the death of the life tenant, or at the end of a certain period designated in the trust. It is the duty of a trustee to harmonize the interests of both the life tenant and the remainder-man and to preserve the principal of the estate intact for the remainder-man. (See Trusts.)

### Remargining

Placing additional margin against a loan collateralized by securities which have declined in value. In stock exchange loans the amount of the margin must be kept constantly good. If there is a decline in the market, the borrower is required to furnish additional securities, or to pay a part of the loan. (See Margin.)

### Remedy Allowance

A technical term used by the British mint to indicate the variation from the exact weight and fineness of a coin, as defined by the Coinage Act, allowed from the weight and fineness when actually produced. In gold coins, the remedy for fineness is two parts in one-thousand and for silver coins, four parts in one-thousand. The remedy allowed in weight per English sovereign is 0.20 of a grain.

In the United States the legal variation allowed in coinage is known as the "Remedy of the Mint." (See Tolerance.)

### Remittance

This term has two applications:

(1) In general the term applies to any form of payment in cash, or its equivalent, in satisfaction of a debt, which is forwarded from one point to another.

(2) In banking practice the term is frequently used to indicate the forwarding for credit of deposits (checks, cash, money orders, matured coupons, etc.) by customers through the mails, although more properly restricted to a check from a bank in payment of the proceeds of checks previously sent to it for collection.

### Remittance Account

Among transit and collection departments this term is used to indicate a collecting agent or correspondent with whom arrangements have been made to remit by check in payment of the proceeds of checks previously sent to it for collection. Such collection agents are to be distinguished from those with whom arrangements have been made to offset items sent for collection by charges to their accounts on the books of the forwarding bank.

### Remittance Letter

See Return Remittance.

### Remonetization

The endowment of a metal with the power of acting as a monetary standard, *i. e.*, permitting its coinage without limit as to quantity and giving the coin manufactured from it full legal tender powers, after such coin has once been deprived of this power by reason of being degraded to the rank of token money. (See Demonetization.)

### Renewal

When a bank extends a loan by permitting a borrower to substitute a new note for a maturing note, the new note is called a renewal. The renewal of a loan should always entail the cancellation of the maturing note and the making of a new one, and book-keeping records should show such cancellation and renewal. In many classes of loans, renewals are regularly expected. Real estate mortgage loans, both on farm and urban property, and live stock loans are usually subject to renewal. The buyer of commercial paper sold in the open market by note brokers is under no obligation to renew. (See Frozen Credits.)

### Renewal Bonds

Bonds issued to extend a maturing issue; another title for what are virtually extended bonds and are practically equivalent to re-funding bonds. (See Extended Bonds, Re-funding Bonds.)

### Renewal Rate

The rate which standing call loans in the New York call money market carry for the day. The rate is fixed each day by a committee of brokers on the floor of the exchange. The rate fixed on Friday stands over Saturday and Sunday; that fixed on a day previous to a holiday holds good for the holiday. (See Call Money Market.)



## Rentes

This term has two applications:

(1) A name given to the annual interest payable upon the bonded debt of the Governments of France, Austria, Italy, Greece, and a few other countries.

(2) By extension of the above meaning the term also applies to the Government securities themselves; for example, French Rentes. These occupy the same position in France as Government bonds in the United States, or consols in England.

The majority of French Government bonds are known as *rentes*, many of which are perpetual issues, and a few of which are even without optional redemption provisions.

## Reorganization

A financial readjustment of a corporation, due to actual or threatened insolvency or foreclosure, in order that the corporation may continue as a going concern under more favorable conditions, through the establishment of a proper balance between income and outgo. The aim in reorganization is to re-establish a balance in the corporation's budget. This is usually achieved by (1) a change in management, (2) reduction of fixed charges by scaling down the capital issues or through the substitution of new contingent for former fixed obligations, or both.

W. H. Lough defines reorganization as "A rearrangement of the company's liabilities so as to make them conform more closely to the assets and earnings . . . a new financial plan which replaces the old plan that has proved faulty.\* A United States Court has defined reorganization as "An effort of the security holders independent of the closing out of the old corporation, to replace the company upon a firm and stable financial footing."

The principal causes leading to the necessity for reorganization among industrial corporations are (1) over-capitalization (especially errors in capitalization which involve excessive fixed charges), and (2) over-production combined with disastrous competition. Among railroads, the chief causes of reorganization have been over-capitalization through excessive bond issues, and prolonged business depressions. The special causes necessitating railroad reorganization are (1) the accumulation of large or pressing floating debt; (2) too rapid expansion, and (3) unexpectedly low earnings. No class of business organizations has re-

sorted to reorganization more persistently than railroads. More than 40 per cent. of the railway mileage of the United States underwent reorganization during the depression following the panic of 1893, and approximately one-half of the railroad companies of the United States have at one time or another been reorganized.

The most usual specific objects to be accomplished in a reorganization are: (1) to raise additional capital; (2) to reduce fixed charges; (3) to pay off floating debt; (4) to eliminate unprofitable departments of the business; (5) to scale down the capital issues or substitute contingent obligations for fixed ones; and (6) to balance the budget. In order to reorganize a corporation, funds are needed to pay off pressing obligations and to purchase needed equipment and supplies. This money is usually obtained through the sale of *Receivers' Certificates* (q. v.), which take priority over all other obligations. These are sold to bankers who therefore occupy the strongest position among the creditors.

The chief rules to be observed in a reorganization plan are: (1) the maximum charges under the reorganization should approximate minimum net earnings under the old regime; (2) the junior security holders should suffer the heaviest losses; (3) the nominal value of outstanding securities need not be reduced, provided contingent obligations are substituted for fixed ones, and (4) bondholders whose claims have been reduced should be given an opportunity to participate in future increased earnings of the property by giving them shares of stock for a portion of the old bonds which are cancelled. (See *Receivership*.)

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## Reorganization Bonds

Same as *Adjustment Bonds* (q. v.).

## Reorganization Committee

A number of persons selected by the security holders and given broad powers to act for them in working out the plans of a *Reorganization* (q. v.). In a reorganization the securities are deposited in trust in accordance with the reorganization plan and under a bondholder's or stockholder's agreement.

\* *Business Finance*, p. 593.

**Repledge**

To rehypothecate; to pledge collateral a second time; when a lender who holds collateral as security for a loan, becomes a borrower, and deposits the same collateral as security therefor, the collateral is repledged; to deposit securities pledged as collateral against customers' loans, as by a bank or broker, from another institution, as collateral for a loan. (See Rehypothecate.)

**Representative Money**

Paper money issued against, and secured by, gold or silver deposited in the United States Treasury, or other public depository, in amounts sufficient to redeem such money in full. Gold and silver certificates are examples of representative money, since they are payable on demand, and sufficient gold and silver is deposited to redeem them in full. Other forms of United States paper money, although amply secured by bonds, or other collateral and payable in lawful money, are not representative money because not supported by a 100 per cent. metallic reserve. (See Money, United States Money.)

**Repudiating States**

See Repudiation.

**Repudiation**

Wilful refusal to pay a debt. The dishonor or rejection of an obligation or contract, as distinguished from an unavoidable failure or *Default* (q. v.). Repudiation may be complete or partial. The term is usually applied to the refusal of a government or civil subdivision thereof to pay a bonded obligation. Whenever a sovereign power, *e. g.*, a national government or state, repudiates its debts, the citizens who have bought its bonds have no recourse, since an individual has no power to sue a sovereign power without its consent. A municipality, however, may be sued.

Although a national government may repudiate its obligations, very few instances of such repudiation are on record. The United States has never repudiated any of its bonds. Several of the states and certain counties have been guilty of repudiation, illegality of the issue being the chief excuse. According to Lawrence Chamberlain, there were two periods of repudiation in the United States; the first was from 1837 to 1844, due to the depressed conditions which followed the panic of 1837, and the second from 1870 to 1884 which is characterized as a "period of bad faith."

**Repurchase Agreement**

This term has two applications:

(1) Bonds are sometimes sold by one bank or investment house to another with the privilege of repurchase. This transaction is tantamount to securing a loan equal to 100 per cent. of the collateral offered. For instance, should an investment house desire to borrow funds with bonds as collateral, it may, instead of applying for a loan, arrange to temporarily sell them to a bank with an agreement to repurchase them at the same price at some specified future date—when the need for the funds has passed. When such an agreement is concluded, the bank purchases the bonds outright at a flat price, or flat price plus accrued interest, with an agreement to sell them back to the borrowing institution at the same price upon the expiration of a certain period plus interest at a stipulated rate. The price agreed upon for purchase and resale is usually the prevailing market price, or a few points below.

The following is a typical form of Bond Repurchase Agreement:

AGREEMENT MADE THIS  
 ..... DAY OF ..... 19.....  
 Between  
 ..... Bank  
 and

WHEREAS, in consideration of the agreement to purchase hereinafter expressed ..... Bank has this day agreed to purchase from .....  
 \$00,000,000 par value, 3rd Liberty 4¼'s  
 due September 15, 1938  
 at a price of ..... flat.

The ..... Bank hereby agrees to resell said lot of bonds to the ..... on or before 60 days from the purchase date at the same price ..... flat, plus interest on the purchase price at the rate of ..... per cent. per annum and the said ..... hereby agrees to repurchase said lot of bonds from the ..... Bank on or before 60 days from the selling date, at the said price ..... flat plus interest on the sale price at the rate of ..... per cent. per annum.

THE ..... BANK  
 By .....  
 Cashier.

(2) Member banks may borrow from a Federal Reserve bank through the instrumentality of a repurchase agreement, which, to all intents and purposes, is a collateral advance. Eligible collateral is of four classes:

Liberty Bonds, certificates of indebtedness, bankers' acceptances, and eligible commercial paper.

The form of repurchase agreement used by Federal Reserve banks is as follows:

New York, ..... 19.....  
TO, FEDERAL RESERVE BANK,  
NEW YORK, N. Y.

The ..... Bank hereby offers for rediscount for ..... days from date the bills and/or notes which are listed in this application and agrees on .....  
..... 19..... to pay you the face value of the same which are thereupon to be released to us. If such payment is not made on said date, you are hereby authorized to charge to our account the face value of said bills and/or notes and to hold them for collection for our account, subject to our order.

..... Bank  
.....  
Cashier.

### Reservation

In printing bond circulars it is customary for the issuing investment house or syndicate to append a statement to preclude any liability which may accrue because of misstatements or inaccuracies which may be contained. Typical examples of such reservations are:

"The information contained in this circular is not guaranteed, but is believed to be correct." "The statements and figures presented herein are not guaranteed, but are taken from sources which we believe to be accurate." "All information given herein is from official sources or from sources which we regard as reliable, but in no event are the statements herein contained to be regarded as representations of the undersigned." "The statements contained herein are based upon information which we consider entirely trustworthy. While we do not guarantee the information, we believe it to be correct."

### Reserve

This term has four applications:

(1) In accounting, a reserve as distinguished from *Reserve Fund* (q. v.), is an account appearing among the liabilities to indicate a reservation of profits. Usually a reserve account is specially earmarked to designate its purpose but represents neither cash nor other assets in particular. It is a part of the proprietorship set aside out of

earnings to prevent its distribution as dividends.

(2) In insurance, the reserve is an accumulating fund from such portions of premiums as are not currently used to pay death claims and expenses, but held for the credit of policy-holders in future years.

(3) In banking, the term is used in several applications, but each has a technical meaning quite different from the term used in accounting and insurance. A bank reserve is an asset in the form of a cash balance maintained in a bank's own vault or deposited with a compulsory or optional depository or depositories representing a certain proportion of the bank's deposits. In the United States, the amount of reserve against demand and time deposits, the method of its computation, the place of deposit, and composition (for Federal Reserve banks), are prescribed by law. In Canada, England, and most of the European countries, however, the amount of reserve against deposits is not regulated, but is left to the discretion of the individual banks.

Deposit reserve requirements did not exist in the United States until after the panic of 1857; but thereafter, due to the insistence of public demand for prescribed reserves, many of the states modified their banking laws by fixing legal reserve requirements. The principle of legal minimum reserves against deposits, which was one of the leading features of the National Bank Act of 1863, became firmly established at that time.

The purpose of required reserves is to maintain the confidence of the depositors in the ability of the banks to pay in cash. It is also a deterrent to unhealthy expansion of loans, since deposit credits cannot be extended to an amount exceeding the legal ratio of reserves to deposits. It is therefore a safeguard against unsound inflation of credits. A bank reserve cannot be regarded as an emergency fund to be used in times of credit stress, because it must be continually kept good, and cannot be drawn upon. The one exception to this rule is the Federal Reserve banks, which with permission of the Federal Reserve Board and under certain penalties, may temporarily suspend their reserve requirements. With the privilege of rediscount under the Federal Reserve System, however, the reserves of member banks are far from being rigid.

The reserve requirements of members of the Federal Reserve System are determined by the class of city in which they are located, as follows:



	Against demand deposits	Against time deposits
Central reserve cities	13%	3%
Reserve cities	10	3
Other cities	7	3

State banks and trust companies which are not members of the Federal Reserve System keep their reserves in their own vaults or in designated depositories, *i. e.*, other approved banks usually in larger cities. But members of the Federal Reserve System are required to keep their entire legal reserves with the Federal Reserve bank of their district, and cash which is maintained in their own vaults or in other banks cannot be counted as reserve. The first is technically known as "legal reserve," the second as "till money." The reserve requirements for state banks and trust companies vary among the separate states from 10 per cent. to 25 per cent., with a strong predominance toward 15 per cent. Banks in the larger cities, however, are usually required to keep larger reserves than those of the smaller localities.

The form prepared by the Federal Reserve Board for the computation of the reserve which is to be carried by member banks with Federal Reserve banks, is given below.

*Net Demand Deposits*

1. Deposits payable within thirty days, not including:
  - (a) U. S. Government deposits.
  - (b) Certified checks outstanding.
  - (c) Cashiers checks outstanding. ....\$ \_\_\_\_\_
2. Balance due to banks other than Federal Reserve Banks....\$ \_\_\_\_\_
3. Cashiers checks outstanding \$ \_\_\_\_\_
4. Certified checks outstanding \$ \_\_\_\_\_
- Total .....\$ \_\_\_\_\_
- Less:
 

Deductions of the following items are permitted only from the total of items 2, 3 and 4. Should the total of items 5, 6, 7 and 8 exceed the total of items 2, 3 and 4; both groups must be omitted from the calculation.
5. Balances due from banks other than Federal Reserve Banks....\$ \_\_\_\_\_
6. Items with Federal Reserve Bank in process of collection..\$ \_\_\_\_\_

7. Exchanges for clearing house \$ \_\_\_\_\_
8. Checks on other banks in the same place .....\$ \_\_\_\_\_
- Total deduction (Items 5, 6, 7 and 8)....\$ \_\_\_\_\_
9. Net balance due to banks .....\$ \_\_\_\_\_
10. Total Net Demand Deposits (Items 1 and 9) \$ \_\_\_\_\_

*Time Deposits*

11. Savings accounts (subject to not less than thirty days' notice before payment) .....\$ \_\_\_\_\_
12. Certificates of deposit (subject to not less than thirty days' notice before payment \$ \_\_\_\_\_
13. Other deposits payable only after thirty days \$ \_\_\_\_\_
14. Postal Savings Deposits .....\$ \_\_\_\_\_
15. Total Time Deposits (Items 11, 12, 13 and 14 \$ \_\_\_\_\_

Federal Reserve banks are required to keep a reserve of 35 per cent. against their demand deposits. While the composition of reserves for member banks with Federal Reserve banks is not specifically designated, Federal Reserve banks may count as reserve only those forms of money coming under the head of *Lawful Money* (q. v.). This includes gold coins, silver dollars, United States notes, gold certificates, and silver certificates.

(4) In monetary science, the term reserve is also applied to the gold or other metal, or to bonds or other documentary evidences of debt, which are used as collateral to support paper money. Thus, Federal Reserve notes are required to be secured by a reserve in gold equal to 40 per cent. of the amount outstanding plus rediscounted commercial paper in an amount sufficient to bring the total security up to 100 per cent. *United States Notes* (q. v.) are secured by a partial gold reserve. In fact, all forms of paper money in the United States are supported by collateral in some form, which may be regarded as reserve. (See Paper Money.)

See also Bank Reserve, Gold Reserve, Naked Reserve, Reserve Ratio.

**Reserve Agent**

A National bank located in a central reserve city or reserve city, which, with the approval of the Comptroller of the Currency, or a state bank or trust company designated by a State Banking Department, may act as a depository in which state banks and trust

companies may keep a certain portion of their legal reserve against deposits.

Prior to the establishment of the Federal Reserve System, National banks located in reserve cities were permitted to keep one-half of their legal reserve with reserve agents in central reserve cities and banks located in other cities were permitted to keep three-fifths of their legal reserve with reserve agents located in either central reserve cities or reserve cities.

### Reserve Bank

Usually this term means a Federal Reserve bank. According to the Federal Reserve Act "the term 'reserve bank' shall be held to mean Federal Reserve bank." Prior to the Federal Reserve System, National banks located in central reserve and reserve cities were called reserve banks. (See Federal Reserve Bank, Federal Reserve System.)

### Reserve Cities

Certain cities of the United States were designated as reserve cities by the National Bank Act and this designation is retained in the Federal Reserve Act. The legal reserve requirements for National banks are based upon a classification of all cities under the designations: Central reserve cities, reserve cities, and other cities.

A 13 per cent. reserve against net demand deposits is required of National banks in central reserve cities; 10 per cent. in reserve cities; 7 per cent. in other cities. A 3 per cent. reserve against time deposits is required uniformly throughout the three classifications. The list of reserve cities as of the date of this publication is as follows:

Boston, Albany, Brooklyn and Bronx, Buffalo, Philadelphia, Pittsburg, Baltimore, Washington, Richmond, Charleston, Atlanta, Jacksonville, Birmingham, New Orleans, Dallas, El Paso, Fort Worth, Galveston, Houston, San Antonio, Waco, Little Rock, Louisville, Chattanooga, Memphis, Nashville, Cincinnati, Cleveland, Columbus, Toledo, Indianapolis, Peoria, Detroit, Grand Rapids, Milwaukee, Minneapolis, St. Paul, Cedar Rapids, Des Moines, Dubuque, Sioux City, Kansas City, Mo., St. Joseph, Lincoln, Omaha, Kansas City, Kan., Topeka, Wichita, Denver, Pueblo, Muskogee, Oklahoma City, Tulsa, Seattle, Spokane, Tacoma, Portland, Ore., Los Angeles, Oakland, San Francisco, Ogden, Salt Lake City, St. Louis, Mo.

The Federal Reserve Act gives the Federal Reserve Board power to classify or reclassify reserve and central reserve cities, or to terminate their designation as such. The

requirements which must be observed by the board in designating any city as a reserve city are: population 50,000; aggregate capital and surplus of National banks located therein, not less than \$3,000,000, and deposits not less than \$10,000,000; and the indorsement of an application by at least fifty National banks located outside the applying city.

### Reserve Depository

A bank designated and empowered to accept on deposit a portion of the reserve of other banks which the latter are required by law to maintain. In New York State the Superintendent of Banks is permitted by law to designate a state bank, trust company, or National bank to act as depository for other banking institutions under his jurisdiction and located in the state. In New York State no state or National bank or trust company may be designated as a reserve depository, however, unless it has a combined capital and surplus of at least: (1) \$1,000,000 if located in a city having a population of 2,200,000 or over; (2) \$750,000 if located in a city having a population of 400,000 and less than 2,200,000; (3) \$500,000 if located elsewhere in the state.

In selecting a depository bank a majority of the board of directors must concur not including any director who may be a director of the proposed depository. Similar regulations apply in other states.

### Reserve Fund

An accounting term sometimes but incorrectly used as synonymous with the accounting term *Reserve* (q. v.), but which should be used to indicate an asset in the form of cash, securities, or other specific assets, which have been set aside for some particular purpose, and which is offset among the liabilities by an account entitled "Reserve," indicating that the fund has been created out of earnings, but is not to be applied for the payment of dividends.

Also an English accounting term equivalent to the term *Surplus* (q. v.) in America. This account is created by retaining a portion of the earnings in the business, instead of disbursing them as dividends.

### Reserve Ratio

A short term for the full title "Federal Reserve ratio of reserves to deposit and Federal Reserve note liabilities." This ratio appears weekly in the published statement of each Federal Reserve bank and of the Federal Reserve System as a whole. This ratio is regarded as an important if not the chief

barometer of credit conditions and money supply. The varying conditions in the different Federal Reserve districts are shown by variations in the ratio of the separate reserve banks, while the ratio for the Federal Reserve System shows the condition for the entire country. (See Federal Reserve Statement.)

### **Reserve Requirements**

See Reserve.

### **Residuary Devisee**

A person to whom the real property of an estate is assigned by law after the specific devisees have received their shares. Real property is devised; personal property is bequeathed. (See Devise.)

### **Residuary Legatee**

A person named in a will who shares in the distribution of the personal property of the testator, after the estate debts, and the specific and general legacies have been paid. (See Legacy.)

### **Respondentia**

An instrument by which the master of a ship pledges its cargo as security for money borrowed in order that necessary repairs may be made at a foreign port. (See Bottomry Bond.)

### **Rest**

A title given to the surplus account which appears in the published statement of the Bank of England. Elsewhere in English bank accounting, this account is entitled, Reserve Fund, and corresponds to the combined surplus and undivided profits accounts in American bank accounting practice.

### **Restrictive Indorsement**

See Indorsement.

### **Resumption of Specie Payments**

See Specie Payments.

### **Retirement**

The paying off of an obligation at maturity, or prior thereto. The term is practically synonymous with redemption and may be used in connection with bonds, notes, acceptances, or paper money (promises to pay) issued by the Government, or by Federal Reserve or National banks. When bonds are subject to redemption, optional retirement is provided (See Optional Bonds). When paper money is retired, it is withdrawn from circulation and cancelled. (See Federal Reserve Notes.)

### **Retreat**

A stock market expression used by financial writers to indicate a general decline in security values.

### **Return**

In England, a bank statement of condition or balance sheet is called a bank return; for example, return of the Bank of England. (See Bank of England Statement.)

### **Returned Items**

Checks, or other demand or matured items which are returned by a drawee bank to the presenting bank because of certain technical irregularities or invalidities which, if accepted, might involve the drawee bank in a loss. They are returned so that the presenting bank may correct the defect, or take such other action as may be necessary. (See Irregularities.)

### **Return Remittance**

A check forwarded by a bank acting as collection agent or correspondent, in payment of the proceeds of checks previously forwarded by, and collected for, an out-of-town bank with whom arrangements for collection have been established. The letter accompanying the return remittance lists the collected checks, and is known as a remittance letter. (See Remittance Account.)

### **Revenue**

Another term for money receipts or income. Taxes collected by the Government are frequently called revenue. Also the earnings of railroads and other public utility corporations derived from services rather than from the sale of commodities are sometimes known as revenue.

### **Revenue Bonds**

Bonds issued temporarily by a municipality or other civil division in order to provide funds for current expenditures until taxes or other income due, can be collected. Revenue bonds are usually in the form of short term notes and are payable on the next tax date. They are also known as tax relief or tax arrearage bonds.

### **Revenue Expenditures**

See Capital and Revenue Expenditures.

### **Revocable Credit**

A letter of credit which can be cancelled by the issuing bank without consulting the beneficiary. (See Letters of Credit.)



**Revolving Assets**

Same as *Current Assets* (q. v.).

**Revolving Credit**

See Letters of Credit.

**Rich Man's Panic**

A name given particularly to the panic of 1903, but which might be applied to any period in which there is a sudden and violent decline in security prices, due rather to the outpouring of new issues which have not been fully digested, rather than to fundamental economic causes. Thus, the panic of 1903 was one of "undigested securities," in which security prices dropped precipitately due to the conversion into cash of large holdings by wealthy and influential investors and speculators. Such a panic does not create widespread financial disarrangement nor does it mark the beginning of a period of serious depression, but concentrates itself on the stock and bond markets. It therefore primarily affects "rich men" rather than the public at large.

**Rigging (Rigging the Market)**

An expression used to indicate the manipulation of security prices by professional operators to their advantage. The term is used more frequently on the London Stock Exchange than in this country. There it has reference to the practice of creating a false show of activity and strength by artificially forcing prices upward with the intention of inducing the public to buy. If the manipulatory tactics are successful, securities are unloaded upon the public at higher prices than those at which they were accumulated.

**Rights**

A term to denote the privilege given to a stockholder to subscribe to additional stock of the same or another class or to bonds of the same company, or to convert bonds into stock, at a certain price. Usually the term refers to the privilege accorded a stockholder of subscribing for more stock of the class, at a price below the market, or on such favorable terms as to make the privilege valuable. When a corporation desires to increase its capital stock, it is customary to give its stockholders of record the preference of subscribing to the additional shares to be issued over the general public, and in amounts proportional to the number of shares already held.

The privilege attached to one share of stock held of subscribing to the new, regardless of the ratio which the original stock bears to the new, is called one right. The

privilege must be exercised within a limited option period, and then the right to subscribe for the new stock expires, the original stock is said to be "ex-rights."

Rights are assignable, and if the holder of stock with rights does not wish to exercise his rights to purchase new shares, he may sell and transfer them to another. Each stock exchange deals in the rights which may be attached to shares traded thereon.

The value of rights depends upon two variables: (1) the ratio of the number of new shares to be issued to those already outstanding, *i. e.*, the number of old shares required to secure one new share, and (2) the excess of the market price of the outstanding shares over the subscription price of the new shares.

To illustrate how the value of rights is computed, the following example is given. Suppose the subscription price of the new shares is \$25; that the market price of the old shares is 33½; and that 1 share of new stock may be subscribed for 4 shares of the old. After the new stock is issued there will be 5 shares outstanding for every 4 shares outstanding previous, *i. e.*, the new capital stock (assuming there is only one class) will be 125 per cent. of the old. Four shares of the old stock will be worth 4 times \$33½, or \$134. One share of the new stock costs only \$25, which is the amount which will be added to the company's assets. Five shares made up of four of the old and one of the new, therefore, will be worth \$134 plus \$25 or \$159. One share of stock after the 25 per cent. increase has been effected will be worth one-fifth of \$159, or \$31.80. The right to subscribe for a new share will be worth the difference between the market price of the old shares and the average value of the shares after the new stock has been sold, or \$1.70 (\$33.50 less \$31.80).

The following is a briefer formula which gives the same result: Subtract the subscription price of the new shares from the market price of the old; then divide the difference by one plus the number of old shares required to secure one new share. Worked out, the computations would be as follows: \$33.50 less \$25 equals \$8.50; \$8.50 divided by 5 equals \$1.70.

**Ring**

A clique or informal pool composed of individuals who have a community of interests, and who co-operate in order to achieve a certain end, such as to raise or lower the price of a certain security. Unlike a pool, there is no written contract delegating management to one member and binding the in-

dividual members to share profits or losses. The members are free to manage their own commitments as they choose.

### Risk

See Business Man's Risk, Business Risk, Credit Risk, Distribution of Risk, Diversification, Gambling, Insurance, Moral Risk, Property Risk, Speculation.

### Room Trader

A name given to a stock exchange member who does not maintain a commission house for the execution of customers' orders, but who trades solely for his own account. A room trader is usually a professional speculator who takes out a membership in order to save the expense of paying commissions on his voluminous transactions, and for the privilege of trading on the floor of the exchange board room where he can take advantage of price fluctuations as they occur. The operations of room traders have an important influence upon prices.

### Rouble

A Russian coin. (See Foreign Moneys—Russia.)

### Round Lot

A stock exchange transaction involving a large number of shares in multiples of 100 shares, *e. g.*, 500 shares, 1,000 shares, 2,000 shares, etc.

### Round Transaction

A completed trading transaction; *i. e.*, the sale of a security or commodity previously purchased, or a purchase to cover a previous short sale.

### Round Turn

Same as *Round Transaction* (q. v.).

### Route Items

A term sometimes used among bank employees of non-clearing house checks and other items which are collected by messenger. Banks in the larger cities map out certain routes or areas which are assigned to individual messengers. Each messenger collects the items drawn on banks or individuals located within the boundaries of his route, whence the origin of the term.

### Royal Exchange

A building in London where foreign exchange is widely dealt in, and where Lloyd's underwriters are located. It is not to be confused with the London Stock Exchange.

### Royalty

A payment made to an inventor or to an author respectively by a manufacturer or publisher in return for the exclusive right to manufacture and sell the inventor's or author's product. The royalty is usually based on a certain percentage of the sales, or a specified return on each sale, of the patented article or copyrighted book, etc. The term also applies to a return on a concession, or to payments due to an owner or landlord by an operating company for minerals or ores taken from mines or quarries located on his property.

### Ruble

A Russian coin, also spelled rouble. (See Foreign Moneys—Russia.)

### Rulings of the Federal Farm Loan Board

See Federal Farm Loan Board Rulings and Regulations.

### Runner

Another name given to a bank's or broker's messenger. (See Messenger.)

### Run on a Bank

When there is a concerted movement of depositors to withdraw deposits from a bank, due to fear of its insolvency, especially in times of panic, or money or credit disturbance, it is called a run. Since a bank's cash reserve is a small percentage of its deposits, a wholesale run might easily cause the bank to suspend cash payments, even though its assets are entirely sufficient to pay off all liabilities. If a bank is in a position to liquidate its quick assets and pay deposits promptly, confidence may be restored, and the run stopped. Runs on banks were common during the panics of 1873, 1893, 1900 and 1907. (See Panic.)

### Rupee

A money of India, Ceylon and Zanzibar. (See Foreign Moneys.)

### Rupee Paper

Notes and bills of exchange drawn in rupees.

### Rural Credits

See Agricultural Credit, Farm Mortgages, Federal Farm Loan System.

### Rural Credits Act

See Farm Credits Act, Federal Farm Loan Act, Intermediate Credit Banks.

## S

### Safe Deposit Box

See Safe Deposit Company.

### Safe Deposit Company

A financial warehouse. As defined by the New York banking law, a safe deposit company is "a corporation organized for the purpose of receiving upon deposit as bailee for safe keeping and storage, jewelry, plate, money, specie, bullion, stocks, bonds, securities and valuable papers of any kind and other valuable personal property, and guaranteeing their safety upon such terms and for such compensation as may be agreed upon by the company and the respective bailors thereof, and to rent vaults and safes and other receptacles for the purpose of such safe keeping and storage."

A company organized to provide facilities for the systematic safe keeping of securities, contracts, wills, insurance policies, jewelry, plate and other valuable documents and property, either as a separate institution, or in connection with a bank or trust company. The premises are usually in the basement of a fireproof building. Extensive vaults must be maintained, proof against fire, water, burglars, and mob violence. The vault itself is usually constructed of armor steel heavily encased in brick or concrete with double doors which are equipped with complicated locks often equipped with a time clock and special emergency alarm apparatus. The combination locks on the outer and inner doors are usually subject to joint control and access requires at least two persons. Among the larger companies special watchmen are placed on duty day and night to furnish additional protection. Inside the vault are separate steel compartments of various sizes, each with a separate door and lock, to be rented to customers..

Safe deposit boxes vary in capacity and shape from a small drawer to a moderate sized safe, the rental charge being in proportion to space occupied. Access can be gained only by the renter in person, or by a duly authorized attorney. Each box is unlocked only through joint control. No renter can enter the vault without being accompanied by the vault attendant, who has a master key to each box. This must

be unlocked by the vault attendant before it can be unlocked by the renter. Within the locked compartment drawer is a separate box, usually of steel, with a lock of its own. This can be withdrawn by the renter. Oftentimes private rooms are furnished so that the owners may clip the coupons, examine their valuables and otherwise administer their affairs in privacy. A strict guard is kept at all times.

The relationship between a safe deposit company and box renter is that of bailor and bailee and like that of landlord and tenant. The safe deposit company is responsible for the safety of the renter's possessions. The renter is bound only to pay his rent and to submit to regulations necessary for the safety of his own property and that of his fellow renters.

The records of a safe deposit company, while simple, must provide means of certain identification. Records must be kept containing signatures, addresses, rental terms and such information as number of box, number of key, and appointment of deputies. A visitor's register shows the hour of arrival and departure of each renter who visits his box. In New York State the forms of records are prescribed by the Superintendent of Banks and all safe deposit companies are subject to examination by the State Banking Department.

While there is no specific provision in the National Bank Act or Federal Reserve Act empowering National banks to maintain safe deposit boxes, the Comptroller of the Currency has ruled that the directors of a National bank may, in their discretion, invest a moderate sum in the construction of safe deposit vaults for the use of customers. National banks have the specific power to hold securities in custody for customers.

In most states, banks and trust companies have power to make limited investments in the stocks of safe deposit companies.

(See Custodianships.)

### Safety-Fund Banks

In 1829 New York State adopted the safety-fund system for the insurance of bank deposits and note issues. The plan provided for the annual payment of one-half per cent. of its capital by each bank into a



fund held in trust by the State Comptroller. In practice, the fund was used to redeem the notes, rather than the deposits, of failed banks, since it was insufficient to pay both. The safety-fund banks were granted special charters and since a new constitution passed in 1846 prohibited special charter banks, the system was abandoned with the expiration of the safety-fund bank charters. This system was the forerunner of required reserves against deposits which started with the National Bank Act, and of the recent tendency toward compulsory guaranty of bank deposits by state legislation.

(See Guaranty of Bank Deposits.)

### Safety of Principal

The prime essential of a good investment. (See Investment.)

### Sag

An expression denoting a tendency to slight price declines on the stock and produce exchange. Price declines in a sagging market are less severe than in a weak market.

### Satang

A money of Siam. (See Foreign Moneys—table 2.)

### Saturation

The point at which the offerings of new securities are greater than the demand without substantial concessions in price. This term is used among investment bankers to indicate that new investment securities have for the time being, absorbed the available supply of capital awaiting investment. Investment bankers and syndicate managers detect the saturation point whenever attractive offerings cannot be sold within the syndicate period. Thus, when securities become a drug on the market, the saturation point is reached.

The term may also be used of commodities.

### Saturation Point

See Saturation.

### Savings Accounts

According to the regulations of the Federal Reserve Board (Regulation D, 1920), "The term 'savings accounts' shall be held to include those accounts of the bank in respect to which, by its printed regulations, accepted by the depositor at the time the account is opened,—(a) the pass book, cer-

tificate, or other similar form of receipt must be presented to the bank whenever a deposit or withdrawal is made, and (b) the depositor may at any time be required by the bank to give notice of an intended withdrawal not less than 30 days before a withdrawal is made."

National banks, state banks and trust companies are permitted to receive time deposits and to pay interest thereon. In some states, New York for example, state banks and trust companies are prohibited from the use of the term "savings" in connection with time deposits, the term being restricted in its application to the deposits of savings banks only. Such state banks and trust companies may solicit savings only by the use of other terms such as, "special interest," "compound interest," "Christmas Club," or "thrift" accounts. The banking laws of the states, being inferior to those of the Federal Government, may not prohibit National banks from advertising and soliciting savings accounts and employing the term "savings," when so doing, in the opinion of the counsel and the Federal Reserve Board. The savings (time) deposits of National banks cannot be invested in the same manner as the deposits of savings banks, but only as prescribed by the National Bank and Federal Reserve Acts.

### Savings and Loan Association

See Building and Loan Association.

### Savings Association

See Building and Loan Association..

### Savings Bank Investments

Bonds which are universally eligible for investment by savings banks; a term used to indicate that a security is high-grade, since the laws relating to investments for savings banks are stringent among all the states. (See Legal Investments for Savings Banks.)

### Savings Banks

Banking institutions organized especially to encourage thrift among persons of small means by paying interest on savings deposited therein. Originally savings banks were regarded as semi-philanthropic institutions to provide machinery for collecting the savings of the poor, and to invest such savings in high grade investments, to the end that the accrued interest might be returned periodically to the depositors. While modern savings banks cannot be regarded in this light, one feature has always re-

mained dominant, *i. e.*, strict supervision of the investment of deposits as a means of protecting a class of depositors who can ill afford to lose their savings, but who, on the other hand, are generally incapable of making a wise selection of a bank.

Savings bank investments are therefore restricted by the laws of the state in which the banks are located. Generally speaking, investments are limited to (1) mortgage loans, (2) bonds of the higher investment grades, and (3) bankers' acceptances. (See *Legal Investments for Savings Banks.*)

As to organization, savings banks are divided in two classes, mutual (non-stock), and stock. Mutual savings banks are organized without stock, are managed by a board of trustees which is usually a self-perpetuating body, and earnings are distributed among the depositors as dividends upon their deposits, and usually limited to 5 per cent. as a maximum. Surplus earnings are carried to the guaranty fund, and the expenses of organization are met out of an expense fund provided by the original organizers. Stock savings banks, on the other hand, are managed by a board of directors elected by the stockholders. Interest is paid to depositors at a fixed or contingent rate, and earnings above expenses and interest charges are distributed to the stockholders. Mutual savings banks predominate in the Eastern States, while the latter are the prevailing type elsewhere. In New York and New Jersey, only mutual savings banks are now permitted.

The banking law of New York State defines a (mutual) savings bank as "a corporation authorized by the laws of this state only to receive money on deposit in such sums, to invest the same in such securities, obligations and property, and to declare, credit and pay from its earnings such dividends, as may be prescribed by law." Savings banking, however, is not confined to savings banks. In many towns, the volume of business does not warrant the establishment of more than one banking house, *e. g.*, a National bank, state bank, or trust company. These institutions are permitted to organize "savings," "special interest," or "thrift" departments which answer the same purpose and are operated in much the same manner as savings banks.

Savings deposits are time deposits, and the right to require notice of intention of withdrawal is granted to savings banks, varying from 10 days to 90 days in the separate states. Under ordinary conditions, however, this is rarely exercised.

Savings accounts are evidenced by pass books, containing the contract between the bank and the depositor. It must be presented with each deposit and withdrawal, and to receive interest credits. It therefore shows the correct balance due to the depositor at all times (ignoring accrued interest), thereby differing from a commercial bank pass book, which is merely a memorandum of deposits, does not show the balance of the account, and is not a contract.

Savings banks are not required to keep a reserve. (See *Lost Pass Book, Pass Book, Postal Savings Banks, Savings Accounts, Time Deposits.*)

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#### Savings Deposits

See Savings Accounts, Savings Banks.

#### Scale Buying

See Buying on a Scale.

#### Scaling

A method of trading in securities or commodities in which orders to buy are placed at regular intervals downward from the prevailing market price, and to sell at regular intervals upward from the prevailing market price. (See *Buying on a Scale.*)

#### Scalper

A speculator who sells at every opportunity of making a fractional, or one or two point profit. (See *Scalping.*)

#### Scalping

An expression indicating the realization of a small trading profit of a fraction or a point or two, especially when turns are made in quick succession. Scalping means to take advantage of any small gain.

#### Scandinavian Monetary Union

See Scandinavian Union.

#### Scandinavian Union

A Union formed by Norway, Sweden and Denmark in 1873, at which the single gold standard, and the same monetary unit was

adopted, *viz.*, the krone, which is approximately equivalent to 26.80 cents in United States money. (See Latin Union.)

**Schedule Showing When Proceeds of Items Will Become Available**

This schedule shows the time required to collect items through the Federal Reserve check collection system from the Federal Reserve Bank of New York. This revision became effective Aug. 1, 1922.

**SCHEDULE SHOWING WHEN PROCEEDS OF ITEMS WILL BECOME AVAILABLE**

**IMMEDIATE CREDIT**

When received by 9 a. m.:

- New York Clearing House banks.
- Other New York City banks (See Federal Reserve Bank Time Schedule, List B).

- Northern New Jersey Clearing House banks (See Time Schedule, List C).
- Checks and warrants on Treasurer of the United States, Washington, D. C.
- Brooklyn banks and bankers—Also Bank of Coney Island and Branch.

When received by 3 p. m.:

- Checks on Federal Reserve Bank of New York and Buffalo Branch.
- Officers' checks of other Federal Reserve Banks.
- Federal Reserve Exchange Drafts.
- Federal Reserve Transfer Drafts.

**ONE DAY AFTER RECEIPT**

New York City—Balance of Manhattan, when received by 9 a. m.

		No.
Boston	District	1
Philadelphia	District	3
Richmond	District	5
Baltimore	Branch of	5
Pittsburgh	Branch of	4
Buffalo	Branch of	2

**TWO DAYS AFTER RECEIPT**

		No.
Cleveland	District	4
Cincinnati	Branch of	4
Chicago	District	7
Detroit	Branch of	7
Atlanta	District	6
Birmingham	Branch of	6
Jacksonville	Branch of	6
Nashville	Branch of	6
Minneapolis	District	9
St. Paul	In District	9
St. Louis	District	8
Louisville	Branch of	8

**Banks in**

Connecticut	**New Jersey
Delaware	*New York
District of Columbia	*Pennsylvania
Maine	Rhode Island
*Maryland	Vermont
*Massachusetts	*Virginia
New Hampshire	

**THREE DAYS AFTER RECEIPT**

		No.
New Orleans	Branch of	6
Memphis	Branch of	8
Little Rock	Branch of	8
Kansas City, Mo.	District	10
Kansas City, Kans.	In District	10
Omaha	Branch of	10
Oklahoma City	Branch of	10
Dallas	District	11

**FOUR DAYS AFTER RECEIPT**

		No.
Helen	Branch of	9
El Paso	Branch of	11
Houston	Branch of	11
Denver	Branch of	10
Spokane	Branch of	12
Salt Lake City	Branch of	12
Portland, Ore.	Branch of	12
Seattle	Branch of	12

**Banks in**

*Alabama	*Minnesota
*Arkansas	Mississippi
*Florida	*Missouri
*Georgia	North Carolina
*Illinois	*Ohio
Indiana	South Carolina
Iowa	*Tennessee
*Kansas	West Virginia
*Kentucky	Wisconsin
*Michigan	

**FIVE DAYS AFTER RECEIPT**

		No.
San Francisco	District	12
Los Angeles	Branch of	12

**EIGHT DAYS AFTER RECEIPT**

**Banks in**

Arizona	North Dakota
*California	*Oklahoma
*Colorado	*Oregon
Idaho	South Dakota
*Louisiana	*Texas
*Montana	*Utah
*Nebraska	*Washington
Nevada	Wyoming
New Mexico	

(See Federal Reserve Check Collection System.)

\* Except banks in cities referred to.

\*\* Except banks in Northern New Jersey Clearing House Association.



### School Bonds

A sub-classification of municipal bonds issued for the purpose of raising funds for the construction of public schools and equipment. (See Municipal Bonds.)

### School District Bonds

Bonds issued by a school district (organized to manage and control the schools of a certain section and having taxing power) for the purpose of building public schools.

### School Savings Banks

Savings banks introduced and adopted by many public schools for the purpose of inculcating habits of thrift among school children. The idea was originally conceived by J. H. Thiry who established the first savings bank system in the schools of Long Island City. Savings banks, throughout the United States, by receiving authority from the local board of education and enlisting the co-operation of the teaching staff, have now organized many permanent School Savings Banks Departments, or Junior Departments.

Different plans of collecting and administering savings have been used. In some cases, the money is collected periodically by the teachers, turned over to the principal, who places it in the savings bank in the name of each depositor. Special passbooks and other special forms are provided for this purpose.

Another method is to issue and sell stamps which are pasted in a book and are evidence of deposit. In other cases, the pupils make their deposits over the window, but this method requires the moral support of the teachers.

School savings banks have been legalized in New York State. The Commissioner of Banks in Massachusetts has recommended the adoption of school savings banks throughout the school system of that commonwealth.

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### Scrip

A temporary certificate issued for exchange at a later date for money, a permanent certificate, or for whatever the scrip entitles the holder. The term is frequently given to fractional shares of stock issued during a reorganization, stock conversion, or to represent dividends not paid in cash, but

deferred to a later definite or uncertain date. Scrip certificates representing fractional shares may be combined and exchanged for whole shares. In still another sense, this term is less frequently used to denote paper currency of fractional denominations, current during the Civil War, and known as shinplasters.

### Scrip Certificate

A fractional share of stock.

### Scrip Dividend

See Dividend, Scrip.

### Sealed Bid

See Award.

### Seasoned Securities

Securities of recognized merit and of long standing, issued by corporations engaged in the production of basic staples, whose officers are skilled in operating and financial management, whose properties and net assets leave a safe equity for securities and whose earnings have been sufficiently stable to insure interest payments and dividend disbursements over a long period of time. The chief significance of this term is to indicate that such securities are subject to a smaller price fluctuation range than others, and are consequently more satisfactory for investment and collateral purposes.

### Seat

A term which is a survival of the days when each broker was assigned a seat in the board room of a stock exchange. Although no actual seats are provided now-a-days for member brokers, a membership is still referred to as a "seat."

### Seat on Stock Exchange

See New York Stock Exchange, Seat.

### Secondary Liability

Contingent or indirect liability. (See Contingent Liabilities.)

### Secondary Reserve

Those assets of a bank, other than cash, which are immediately convertible into cash without sacrifice of the principal amount invested. Call loans, balances due from banks, exchanges for clearing house, and time loans eligible for rediscount are immediately available assets. Since convertibility can be obtained on short notice, these assets constitute

a secondary reserve for use in case of emergency. It is reasonable also to include high grade bonds for which there is a ready market. In times of a severe panic, clearing house loan certificates supported by commercial paper furnish a useful expedient for effectively increasing the money supply. During the panic of 1907 these instruments were used for settling clearing house balances.

### Second Bank of the United States

See Bank of the United States.

### Second-Class Paper

Notes, trade acceptances and bills of exchange which are obligations of names not as well known as those classified as first class, and which are not entitled to the highest credit rating. The term is not derogatory and does not imply that the risk in purchasing this paper is unduly high, but only that the standing of the maker is somewhat inferior to that classified as first class. Paper may also fall into a third or lower class.

### Second Mortgage

First read *Mortgage*.

A mortgage placed upon real property which is already encumbered with a first mortgage. An owner of a piece of real estate appraised at \$50,000, and who has borrowed \$25,000 by placing a first mortgage on it, may wish to borrow an additional \$5,000 by giving a second mortgage as security, making the total indebtedness equal to \$30,000. In case of failure to pay either the principal or interest, the holder of either the first or second mortgage is entitled to foreclose his mortgage in order to satisfy his claim. In case of foreclosure and sale of the property, the holder of the second mortgage is not entitled to receive anything until the first mortgage holder has been paid in full. Since the protection offered to a second mortgage holder is less than for a first mortgage holder, lending on a second mortgage is attended with greater risk than lending on a first mortgage. The degree of risk on a second mortgage depends upon the margin between the appraised value and the total claims against the property. To compensate for the greater risk in second mortgage loans, a higher interest rate is charged.

National banks are not permitted to make second mortgage loans. State banks and trust companies are usually permitted to do so, but with certain restrictions. In most states savings banks are prohibited from making second mortgage loans. (See Mortgage Loans, Second Mortgage Bonds.)

### Second Mortgage Bonds

First read *Second Mortgage*.

Bonds secured by a mortgage upon property which is already encumbered with an issue of first mortgage bonds. Second mortgage bonds occur most frequently among railroad issues and constitute a second lien upon the property specified in the mortgage, and the earnings of the company. Consolidated mortgage bonds, general mortgage bonds, first and consolidated mortgage bonds, first and refunding mortgage bonds, etc., are usually bonds in which a part of the security consists of a second mortgage.

### Second of Exchange

See First of Exchange.

### Second Preferred Stock

See Preferred Stock.

### Second Teller

Another name for *Receiving Teller* (q.v.).

### Secretary of the Treasury

One of the cabinet officers who is ex officio a member of the Federal Reserve Board and of the Federal Farm Loan Board. The Secretary of the Treasury has general supervision, management, and control of the Treasury Department and of the bureaus under that department. Some of his specific powers are (1) to keep the various forms of currency of the United States on a parity with one another; (2) to direct the engraving of plates and dies for Federal Reserve notes; (3) to approve the appointment of National bank examiners; (4) to direct the deposit of Government funds; (5) to direct the issue, redemption, and retirement of Government obligations, and to determine rates of interest on such obligations; (6) to approve form of circulating notes of Federal Reserve banks; (7) to confer with Congress and the Director of the Budget on matters pertaining to taxes and expenditures.

### Secured Bills

Documentary bills of exchange; bills of exchange which are accompanied by a bill of lading giving title to the merchandise specified therein. The term is also applied to notes, acceptances or bills of exchange which are secured by bonds, stocks, warehouse receipts, short-term paper, or other security.

### Secured Creditor

A creditor who holds some form of collateral or legal right to claim certain assets of the person, firm, or corporation to which a loan or advance has been made, or to whom goods have been sold. Thus, a mortgagee, mortgage bond holder, or bank which lends against any kind of collateral, at least equal in value to the face of the loan, is a secured creditor.

A depositor in a bank is an unsecured creditor, except in the case of the Government, or civil division thereof (state, county, city) which require a depository bank to provide satisfactory collateral for such deposits. (See Liabilities.)

### Securities

A general term applied to that class of investments represented by engraved, printed, or written documents evidencing ownership or creditorship in a corporation or other property. The term therefore includes bonds, stocks, mortgages, coupons, scrip, etc., of every kind.

Securities furnish one of the most important bases of bank credit.

### Securities Company

Holding company. A company organized to hold the shares of its subsidiary companies. (See Holding Company.) The term also sometimes applies to an investment house or company which deals in securities at retail.

### Securities Ledger

A ledger in which transactions in bonds or other securities are recorded. Accounts are classified alphabetically, according to the name of the security. The information which a typical securities ledger contains is shown by the headings of the columns in the form below:

DR.	CR.
Date of purchase.	Date of sale.
Descriptive details.	Descriptive details.
Par value.	Par value.
Unit purchasing price.	Proceeds of sale.
Commission.	Commission.
Total cost.	Interest accrued.
Accrued interest paid.	General ledger account Cr.
Balance.	Interest credited.
(a) Par	Profit or loss.
(b) Money	Disposition.
Trading value.	Remarks.
Book value.	
Remarks.	

### Security

A pledge of property or of good faith for the payment of a debt.

There are two classes of security (1) collateral or property security, and (2) personal security. By collateral security is meant any property, negotiable security, or documentary evidence of a claim against, or ownership in property, conveying title to the holder as a pledge for the repayment of money lent, or as guarantee for the performance of a contract.

By personal security is meant the guaranty of the payment of money by one person for another, whose credit standing is not sufficient to borrow on his single name. In personal security there is no pledge of property, but simply the signature (indorsement, guaranty, or surety) of some person having financial responsibility. Personal security is only valuable, therefore, where the moral risk is high. (See Guaranty, Surety.)

While the various banking laws permit banks to make loans without security with certain restrictions, in practice only commercial loans are unsecured. All other loans are usually secured by collateral which, at prevailing market prices, has a value in excess of the amount of the loan. Loans to brokers for furnishing funds to traders for speculative purposes are always secured by stocks or bonds, which at market price, are in excess of the face of the loan by 20 to 30 per cent. Mortgage loans are secured by real estate valued at from 15 to 50 per cent. more than the loan.

The most usual types of security for bank loans are bonds, stocks, notes, trade acceptances, bank acceptances, bills of lading, warehouse receipts, certificates of deposit, mortgages on real estate, chattel mortgages, savings banks' passbooks, assigned book accounts, assigned syndicate agreements, and trust receipts. (See Securities.)

### Seigniorage

Scientifically, the charge made by a government for minting standard bullion, but popularly this term means the profit made by the Government in coining subsidiary (*i. e.*, non-standard) coins and is represented by the difference between the bullion or metal price and the nominal value of the coin. At times the United States Government has been able to purchase the weight of silver in a dollar for as low as 50 cents. Since silver is not entitled to free coinage, but is coined for Government account only, the Government makes a profit of the difference. This profit is placed in a fund known as a



"silver profit fund." The profit made in coining nickel and bronze coins is placed in the "minor coin profit fund." The term is a survival of the middle ages when kings (seigneurs) made a charge for minting coins.

Among the leading commercial nations no seigniorage charge is made in the coinage of gold coins. Seigniorage should be distinguished from *Brassage* (q. v.). (See Coinage, Mint.)

### Self-Check

A check deposited for credit or presented for payment at the bank on which it is drawn, *i. e.*, a home debit. When deposited for credit, a self-check involves a credit to the last indorser's account and a debit to the drawer's account. Obviously, a self-check does not pass through the clearing house.

### Self-Liquidating Loan

A short term commercial loan, so-called because automatically discharged through the proceeds of sale of the merchandise which it finances.

### Seller's Option

See Methods of Trading.

### Selling on a Scale

See Buying on a Scale, Scaling.

### Selling Order

See Orders.

### Selling Out

First read *Margin*.

An expression to denote the exercise of the legal right accorded a broker to close out an account of a customer who fails to furnish additional margin when demanded, or of a bank to close out a broker's loan, for the same reason. An account or loan is sold out in a declining market in order to protect the lender from loss which might accrue due to the decline in the value of the collateral below the face of the loan. Loans are usually sold out at or near the *Exhaust Price* (q. v.).

### Selling Short

See Short Sale.

### Selling Stop Order

See Stop Order.

### Semi-Annual Interest

Interest which is payable twice a year. The interest upon the majority of bonds and mortgages is payable semi-annually. The heaviest interest dates are January 1st and July 1st. Interest dates occur most frequently on the 1st and 15th of the month. (See Quarterly Disbursements.)

### Semi-Municipal Bonds

Bonds which are not necessarily the obligation of all the tax payers of the issuing municipality, but which are obligations of such tax payers as secure the benefit of the improvements constructed from the proceeds; thus, district drainage, irrigation or reclamation bonds, levee district bonds, and sometimes street-paving bonds belong to this class. In purchasing municipal bonds investors should inquire whether they are obligations of all the tax payers of the issuing civil division, or only a part of them. Semi-municipal bonds are not entitled to quite as high a rating as *Municipal Bonds* (q. v.).

### Sen

A Japanese money. See Foreign Moneys—Table 2.

### Senior Bonds

Bonds which have a claim upon the assets and earnings of a corporation prior to other bonds. For example, first mortgage bonds are senior to second mortgage bonds, and all mortgage bonds are senior to the debentures of the same corporation. The term senior is used as an antonym of junior, and indicates in a general way, that the securities have first claim upon assets and earnings.

When a corporation is capitalized by means of stocks or bonds, the bonds are the senior obligations; when capitalized without bonds, the preferred stock is referred to as the senior issue and the common stock as the junior issue.

### Senior Issue

See Senior Bonds.

### Senior Lien

See Lien.

### Serial Bonds

A term which refers to a classification of bonds according to method of retirement without reissue. A single issue of bonds may be retired in their entirety on a single maturity date, or in installments. Serial bonds

are those which are retired by the latter method, a certain portion maturing at different dates related by regular intervals. For example, a \$500,000 issue of bonds dated July 1, 1920, may be retired in installments, the first \$100,000 to mature July 1, 1925, and an installment of \$100,000 each subsequent five years thereafter.

Serial bonds are issued where there is no intention of refunding and have a purpose similar to that of sinking fund bonds, *i. e.*, systematic provision for cancelling debt. While the entire issue of serial bonds bears the same rate, the yield upon the various installments is made to differ by sale at varying prices, depending upon the term. The advantage of serial bonds from the standpoint of the issuer is that when interest rates are high, short term bonds are preferred and since the term of serial bonds is usually short—at least for the earlier installments—they command a better market than long term bonds of the sinking fund variety. Contrasted with the sinking fund method of providing systematic cancellation, serial bonds shorten the term over which the money is borrowed and prevent mismanagement of the sinking fund. Serial bond issues are largely confined to the municipals.

### Set (of Bills)

See First of Exchange.

### Set of Exchange

See Bills in a Set, First of Exchange.

### Settled Production

A term which refers to the steady or even rate of flow of an oil well, indicative of large reserve supplies.

### Settlement

This term has three applications.

(1) In general, the striking of a balance between two or more parties having mutual dealings with one another and the payment of the debit balance by the debtor (debtors) to the creditor (creditors).

(2) The striking of balances among members of a clearing house association. (See Clearing House).

(3) The process by which purchases and sales of securities among brokers are determined and the balances paid off at the stock exchange clearing house; or by which inter-broker, non-clearing house securities transactions or produce exchange transactions are paid off. (See Methods of Trading, New York Stock Exchange Clearing House, Settlement Days.)

### Settlement Clerk

In banking practice, the name given to the clerk who receives packages of checks delivered from each presenting bank and determines the total amount of checks so presented at the clearing house each day. He is the representative of the bank at the clearing house and reports to the clearing house manager the total of checks presented by and against his bank, leading to the determination of the debit or credit balance.

(See Clearing House.)

### Settlement Days

On the London Stock Exchange settlements of security transactions are regularly made twice a month, one about the middle, and the second at the end of the month. Transactions "for cash" are settled by immediate payment, regardless of the regular settling day.

Each settlement requires three days; the first is known as contango day (also continuation, carrying over, or making-up day); the second is name or ticket day; the third, pay day, *i. e.*, settling day proper. All transactions, except for cash, occurring between settlement days must be settled at the next settlement period, *i. e.*, paid for and delivered in accordance with the brokers' contracts. Transactions in consols and other British Government and Colonial Government bonds are settled only at the end of the month.

The advantage of the periodic settlement as compared with the daily settlements made in America, is the saving of time to brokers in making deliveries and payments.

### Sewer Bonds

A sub-classification of municipal bonds, according to purpose. Municipal or semi-municipal bonds, the proceeds of which are used in the construction of sewers.

### Shade

An expression which denotes a slight concession in prices.

### Shading

See Shade.

### Shahi

A Persian money.

(See Foreign Monies—table 2.)

### Shaking Out

An expression to denote the process of forcing speculators with thin margins to

sell their securities (or commodities) by professional operators working for a decline in prices through short selling or manipulation.

### Share

In the United States this term is synonymous with stock, or share of stock, but is much less common in occurrence. In England and Canada the term share is used almost exclusively as the equivalent for the American stock, and the term stock is reserved to denote Government bonds.

### Share Capital

That part of the capital of a corporation which is represented by its outstanding shares of stock as distinguished from its bonds and floating debt. The latter may be called "Loan Capital."

### Shareholder

See Stockholder.

### Shares Without Par Value

See Without Par Value.

### Sheared

See Fleece.

### Shekel

An ancient Jewish coin signifying a weight, approximately equivalent to a half ounce troy.

### Sherman Notes

Same as *Treasury Notes* of 1890, (q. v.).

### Sherman Silver-Purchase Act

An act passed July 14, 1890, as a substitute for the Bland-Allison Act repealed on the same day. This act directed the Secretary of the Treasury to purchase monthly 4,500,000 ounces of fine silver at the market price, payment to be made in treasury notes. These notes were legal tender and made redeemable in gold or silver coin by the Secretary of the Treasury at the discretion of the holder. On account of the piling up of over-valued silver dollars in the Treasury as a result of the Bland-Allison Act and the Sherman Silver-Purchase Act, together with a decline in the gold reserve through gold exports at this time, and the fact that banks called for redemption of the treasury notes in gold, a strain was put upon public confidence as to the ability of the Government to meet its paper currency in

gold. Combined with these circumstances, a panic occurred in the London silver market in 1893 which brought the market ratio between silver and gold to about 31 to 1 as compared with a mint ratio of 15.988+ to 1. At current market prices the silver dollar was then worth about 50 cents in gold. Due to the continued demands made upon the Treasury for redemption of Treasury notes in 1890 and greenbacks in gold, it became evident that the continued purchase of silver, leading to an increased circulation of over-valued silver dollars, would soon seriously embarrass the Treasury Department. Accordingly Congress repealed the purchasing clause of this act on Nov. 1, 1893.

### Shifting Loans

An expression used in the financial districts to indicate the process seeking other lending banks for accommodation, when banks call upon broker-borrowers to pay up their loans. (See Call Money Market.)

### Shilling

A silver English coin equal to 1/20 of the pound and to 12 pence, and equivalent to 24.3 cents in United States money.

(See Foreign Moneys—table 2.)

### Shinplasters

A popular name given to fractional paper currency issued during the Civil War. The term was also applied to similar currency issued because of a shortage of metallic money after the War of 1812. A million dollars in paper fractional currency is still carried in the Treasury accounts as being outstanding and redeemable on demand.

### Shipper's Load and Count

A clause sometimes used in a bill of lading for the purpose of limiting the carrier's liability. (See Bill of Lading.)

### Shipping Documents

A general term given to the papers which which may accompany a domestic or foreign bill of exchange. A bill of exchange supported by shipping papers is known as a documentary bill. In domestic transactions the minimum shipping documents consist of the bill of lading and seller's invoice. In foreign bills of exchange the minimum documents consist of the ocean bill of lading, marine insurance certificate, and seller's invoice.



Other documents which may accompany a foreign bill of exchange, and which vary according to the agreement between buyer and seller, the laws of the nations concerned, etc., are:

- Consular invoice.
- Certificate of analysis.
- Certificate of inspection and weight.
- Certificate of origin.
- Warehouse receipt.
- Dock receipt.
- War risk insurance certificate.

### Shipping Money

See Currency Shipments.

### Shoestring Margin

A thin, inadequate margin. Speculators with small, precarious margins are said to be "trading on a shoestring."

### Short

See Short Sale.

### Short Account

First read *Short Sale*.

The aggregate of securities which have been sold short, *i. e.*, for the account of short sellers. The size of the short account is sometimes referred to by financial reviewers as bearing upon the technical position of the market.

### Short Bill

Bills of exchange drawn by banks or commercial interests, but usually documentary and payable from 1 to 30 days after presentation, as distinguished from long bills which are those payable 90 or more days after sight. Some authors give 60 days as the dividing line between long and short bills. (See Foreign Bills of Exchange.)

### Short Covering

The purchase of stock (or commodities) by a short seller to close or complete the transaction. Since every short sale involves borrowing, a purchase must be made in order to fulfill the contract and permit the return of the borrowed stock (or commodity contract).

### Short Interest

The aggregate of securities (or commodities) which have been sold short and not yet "covered;" practically the same as *Short Account* (q. v.).

### Short of the Market

One is said to be short of the market when he has sold securities (or commodities) short and has not yet covered.

### Short Rate

A term used in connection with fire insurance premiums indicating a rate based on a period less than one year. Insurance rates are based on a year period and the short rate is more than proportional to the yearly rate.

### Shorts

A term applying to speculators who have sold short.

### Short Sale

The sale of a security or commodity not owned or not in one's possession. Ordinarily an offer to sell presumes ownership by the seller of the thing to be sold. In a short sale, however, selling precedes buying, the ordinary process being reversed. The short seller is a *Bear* (q. v.) who believes that a security (or commodity), or the entire market is due for a decline. He therefore sells in anticipation of a decline in values, with the expectation of buying (covering) when the price has fallen.

Short selling is not peculiar to the stock or commodity markets. Contracts for buildings, bridges, roads, in which the price is named in advance of the letting of the contract is a short sale. The contractor sells a completed product before construction begins. Like stock and commodity speculation, such a short sale is possible and profitable only because the contractor has special knowledge of the different elements of cost and can estimate cost of materials and labor required to achieve the result specified in the contract, with a small percentage of error.

In a short sale of securities, the speculator puts up margin just as in the case of a margin purchase. When the order is executed, since he does not possess the stock sold, it must be borrowed. The short seller is not entitled to interest upon proceeds of sale of securities sold short and must pay any dividends that are declared.

There have been several attempts to prevent short selling by legislation, on the grounds of illegality. In 1830 a law was passed preventing short sales, but it was repealed in 1858. Short selling, moreover, has been upheld in the courts, and the stock exchange bases its stand as to the legality of

short selling on several decisions. In *Bibb vs. Allen* (149 U. S., 481) the Supreme Court of the United States said: "It is held settled that contracts for the future delivery of merchandise or perishable property are not void whether such property is in existence in the hands of the seller or be subsequently acquired." In the case of *Hurd vs. Taylor* (181 N. Y., 231) the Court of Appeals of New York said: "The purchase of stocks through a broker, though the party ordering such purchase does not intend to hold the stocks as an investment, but expects the broker to carry them for him, with the design on the part of the purchaser to sell the stocks when their market value has enhanced, is, however speculative, entirely legal. Equally so is a 'short' sale where the seller has not the stock he assumes to sell, but borrows it and expects to replace it when the market value has declined." In the case of *Irwin vs. Williar* (110 U. S., 499) the Court said in part: "A person may make a contract for the sale of personal property which the vendor does not own or possess, but expects to obtain by purchase or otherwise, is binding if an actual transfer of property is contemplated."

Short selling has been challenged on the grounds that it is uneconomic and unethical, that it is sheer gambling and an unfair attempt to depress the value of other peoples' holdings. Most economists and business leaders believe that short selling has a legitimate function. Its legitimacy is unquestioned in the case of building contracts where the price is stated before construction begins. In the commodity and security markets it acts as a check on undue optimism, thereby counteracting the tendency to excessive speculation in a bull market, and correspondingly supplies a sustaining force in a heavily declining market. It thus prevents extremes of advance, and decline.

Short selling is usually participated in only by professionals, but it is erroneous to believe that short selling is more profitable than buying for the long account. There are dangers in short selling that do not exist in the purchase of real securities. In case of a shortage in the floating supply of securities which can be borrowed, a premium may be exacted by the lenders from the borrowers. This always causes a decline in the security lending at a premium. Where a stock is closely held, it is not impossible for the shorts to sell more stock than is available. In this case, a corner exists so that the owners of stock can charge the short sellers any price when they cover their contracts. There is theoretically no limit, moreover, to

the amount which one may lose upon a short sale, provided he furnished sufficient margin, inasmuch as there is no theoretical limit to the price to which a stock may rise.

### Short Side

Those who have sold short and whose interest it is to work for a decline in prices. Same as *Short Account* (q. v.).

### Short Stock

Stock which has been sold short.

### Short-Term Notes.

Notes running from three to six months.

### Sick Market

An expression describing the condition of the stock market following a period of speculative activity in which prices have fallen and traders are discouraged. A condition of uncertainty and hesitancy prevails, and traders are casting about for news susceptible to favorable or unfavorable interpretation so that commitments may be made accordingly.

### Sight Bill of Exchange

A bill of exchange payable on presentation. (See *Bill of Exchange*.)

### Sight Bills

Bills payable on presentation; a term synonymous with demand bills and presentation bills. (See *Bill of Exchange*.)

### Sight Credit

A short title for the full title "Sight Letter of Credit," a letter of credit which specified the drawing of a sight draft thereunder. (See *Letters of Credit*.)

### Sight Draft

A draft payable upon presentation. (See *Draft*.)

### Sighting a Bill

When a bill is payable at sight or so many days after sight, it is presented for payment or acceptance to the drawee in order to bring it under his *sight*. A sight bill should be presented as soon after receipt as possible.

### Sight Rate

The rate of exchange applicable to a demand draft or check; it is synonymous with *Check Rate* (q. v.).

## Signature Card

See Signature Department, Signatures.

## Signature Department

Among larger banks a separate department is created, the function of which is to verify signatures on all home debit checks before they are charged to the depositors' (drawers') accounts. Since a bank is responsible for paying checks signed by a forged or unauthorized name, the verification of the genuineness of signatures is important. The verification of signatures depends upon keeping an up-to-date signature card file containing all signatures with which the bank comes in contact, and the employment of clerks who can memorize the signatures of the customers in order to discriminate between a genuine signature and a fictitious, forged, or otherwise unauthorized one, without constant comparison with the signature card.

The signatures of principals of each account are secured on a signature card for future use when the account is opened. Some banks procure specimen signatures on three different cards to be used in the paying teller's and new business departments, and at the check desk. Other banks make photographic copies of signature cards, thus obviating the necessity of requesting customers to sign more than one card.

In partnership accounts the signatures of both partners are required. In corporation accounts the signatures of each official authorized to sign, either as full authority or for counter signature, or *Per Procurator* (q. v.), is obtained. The signatory power of each official is also indicated. Thus a bank official may be authorized to certify a check but not to sign a cashier's check. To authenticate the signatures of officials, a copy of the resolution of the board of directors empowering such officials to sign is also procured. Changes in authority to sign must be followed up and signature cards revised accordingly. The signature clerk must see that the signature is not only genuine, but in case of an official signing for a corporation, that he has power to sign and that the power to sign is still in force.

Banks usually place the following additional information on the signature card: (1) occupation or business; (2) address; (3) date of opening the account; (4) introduced by. (See Signatures.)

## Signatures

A bank is required to know the signatures of all its customers and is responsible if it

pays a check on which the drawer's signature has been forged. For this reason it is essential that the signature upon each check be verified before it is paid and charged to the customer's account. The method of verification is explained under *Signature Department* (q. v.).

When checks are presented to the paying teller the signature of which he does not recognize (as in the case of a new account), he must consult the signature file, which should be readily accessible. If the drawer's signature differs from the usual one so as to raise the question of its genuineness, it is referred to an officer. In England it is a customary practice when the signature differs and it is difficult to communicate with the depositor, to return the check with the explanation, "signature differs."

Signatures may be representative of different types of accounts, *e. g.*:

- (1) Individuals.
- (2) Joint—Where one or more persons have a joint interest in the account.
- (3) Co-partnership—Where two or more persons can sign checks binding a firm.
- (4) Corporation—Where certain officials are authorized to sign by a resolution of the board of directors, which the bank should have on file.
- (5) Power of attorney—Where an agent may be appointed to sign for another person. In this case a copy of the power of attorney, setting forth the agent's authority, should be on file.
- (6) Agent, manager, treasurer, special, etc. A person or corporation may have several special accounts for various purposes. The person authorized to sign checks for withdrawals from such an account, does not need to reveal the principal.
- (7) Administrator, executor, trustee, sinking fund agent, etc. When signing in a fiduciary capacity, proper authorization to act in such capacity must be on file.

## Sign in Blank

See Indorsement.

## Signing by Mark

See Mark Signature.

## Silver

A metal extensively used in the arts and which still constitutes the standard of value and monetary unit of several countries, including China, Persia, Abyssinia, Guatemala, Honduras and Salvador. It is also used among the gold standard countries in the subsidiary coinage.



Before 1870 the ratio of the commercial value of gold and silver was relatively stable, being normally about 15½ to 1. Since 1870 and especially since 1890, the commercial value of silver has declined in relation with gold. On account of its greater use in the arts, greater annual variation in production and its lesser value, it is less desirable as a standard of value than gold.

The production of silver in the United States and for the entire world since 1861 is exhibited in the parallel columns below:

	World Silver Production (Ounces Fine)	United States
1861	35,401,972*	1,546,900†
1865	35,401,972	8,701,200
1870	43,051,583	12,375,000
1875	62,261,719	24,539,300
1880	74,383,495	30,318,700
1885	91,609,959	39,909,400
1890	126,095,062	54,516,300
1895	167,800,960	55,727,000
1900	173,591,364	57,647,000
1905	172,317,688	56,101,600
1910	221,715,673	57,137,900
1911	226,192,923	60,399,400
1912	224,310,654	63,766,800
1913	223,907,843	67,601,111
1914	168,452,942	72,455,100
1915	184,204,745	74,961,075
1916	168,843,000	74,414,802
1917	174,187,800	71,740,362
1918	198,168,408	67,810,139
1919	174,517,414	56,682,445
1920	174,212,686	55,361,573
1921	170,000,000‡	53,052,000
1922	210,000,000‡	60,000,000‡

\* Estimates before 1885 are by Dr. Adolph Soetbeer, and since by the Director of the Mint.

† Estimates before 1875 are by R. W. Raymond, U. S. Commissioner of Mining Statistics, and since by the Director of the Mint.

‡ Estimates.

The commercial or market ratios existing between gold and silver from 1700 to 1922 are given under *Market Ratio* (q. v.).

The principal market for bar silver is in London where the metal is extensively traded in as a hedge against business transactions. (See Silver Certificate, Silver Coinage, Silver Dollar.)

### Silver Bullion

Metallic silver bars. (See Silver.)

### Silver Certificates

Silver certificates are issued in denominations as follows: \$1, \$2, \$5, \$10, \$20, \$50, \$100, \$500 and \$1,000. This issue is en-

graved with green backs, being stamped with a blue seal on the obverse side. Like gold certificates they are, in effect, warehouse receipts certifying that a silver dollar has been deposited in the United States Treasury for each dollar represented by the certificate. They circulate in lieu of an equivalent amount of actual silver in which metal they are redeemable, and therefore, may be regarded as being collateraled by a 100 per cent. silver reserve. They are not redeemable in gold and are not legal tender, but are receivable for all public dues and when so received may be reissued. Through the operation of the Gold Standard Act of 1900 all forms of United States money are required to be maintained on a parity, so that the question of their legal tender and acceptability at par does not arise. They may be held by Federal Reserve and National banks as lawful reserve.

### Silver Coinage

At present silver coinage in the United States is restricted to standard silver dollars, and three subsidiary silver coins, the 50 cent, 25 cent, and 10 cent piece, all of which are coined on Government account only. Under the Act of April 2, 1792, establishing the first monetary system of the United States, both gold and silver were standard moneys and freely coined at the ratio of 1:15. The double standard was established by the Act of February 12, 1873, whereby silver became demonetized. (See Silver Dollar, Half Dollar, Quarter, Dime.)

### Silver Dollar

This coin has an anomalous position in the United States monetary system. It is coined only on Government account, is short in value and is in reality a form of token money. Nevertheless it is legal tender at its nominal value for all debts and dues, public and private, without regard to amount, except where otherwise expressly stipulated in the contract. Silver dollars are not redeemable in gold—the standard money—although by the Gold Standard Act of 1900, and reaffirmed by the Federal Reserve Act of 1913, the different kinds of money in circulation are required to be kept on a parity with gold by the Treasurer of the United States.

The silver dollar contains 412.50 grains of standard silver (0.900 fine), and is composed of 371.25 grains of pure silver, and 41.25 grains of copper alloy. The coinage ratio between gold and silver is 15.988+, and at the current prices of silver, the Government makes a considerable profit in silver coinage,

which is placed in the *Silver Profit Fund* (q. v.).

The coining value in standard silver dollars of an ounce of pure silver is \$1.2929+, and the coining value of an ounce of standard silver (0.900 fine) is \$1.1636+. Since silver is quoted by the ounce, the bullion value of the silver dollar at any given time may be determined by dividing the coining value per ounce by the commercial price per ounce. The following parallel tables show these values from 1890 to 1922:

	Value of a fine ounce of Silver at average quotation in London bar silver market.	Bullion value of Silver Dollar.
1890	.....\$1.04634	\$0.80927*
1895	......65406	.50587
1900	......62.007	.47958
1901	......59595	.46093
1902	......52795	.40835
1903	......54257	.41960
1904	......57876	.44763
1905	......61027	.47200
1906	......67689	.52353
1907	......66152	.51164
1908	......53490	.41371
1909	......52016	.40231
1910	......54077	.41825
1911	......53928	.41709
1912	......61470	.47543
1913	......60458	.46760
1914	......55312	.42780
1915	......51892	.40135
1916	......68647	.53094
1917	......89525	.69242
1918	......98446	.76142
1919	......1.12087	.86692
1920	......1.01940	.78844
1921	......62670	.48817
1922	......67590	.52640

\* Determined by dividing \$1.04634 by \$1.2929.

### Silver Profit Fund

The profit which the Government makes in coining silver dollars from silver bullion. It is equal to the difference between the value of the silver coins and the commercial value of the silver bullion used in their coinage. This amount is placed in the silver profit fund.

### Silver Standard Countries

See Silver.

### Simple Arbitration of Exchange

See Arbitration of Exchange.

### Single-Name Paper

Notes which are the obligation of one party only, *i. e.*, the maker. It is also known as straight paper.

Single name paper "represents loans to an individual, firm or corporation on their own note of hand without any other responsibility than that of the general credit of the maker. Although two or more names may appear on a note either as makers or indorsers, it is still single name paper, if the names represent identical interests. Sometimes the members of a firm will indorse their firm notes personally, but unless they are possessed of considerable outside means entirely apart from their business, such indorsements merely strengthen the moral risk, and the instrument is still single name paper. Again, a firm may have a subsidiary organization trading under a separate name, but with identical interests, so that although both names appear on the note—one as maker and the other as indorser—the obligation is still essentially single name paper. Failure to guard against this contingency has caused many bank losses, since a single failure may affect several allied companies."\*

Fully one-half of the commercial paper sold through the medium of note brokers is single name paper. (See Commercial Paper.)

### Single Option

A put or a call. (See Call, Put.)

### Single Standard

A monetary system in which one metal, *e. g.*, gold or silver, is made the basis of the standard money and coins manufactured from all other metals are subsidiary. (See Gold Standard, Standard Money, Standard of Value.)

### Sinking Fund

A fund created by setting aside out of earnings at stated intervals sufficient to provide for the payment of all, or part, of a long term debt, such as an issue of bonds or preferred stock. The creation of a sinking fund is a method of amortization or extinguishment of a debt not yet matured, and is as binding upon the debtor organization (obligor) as any other provision of the contract.

A sinking fund is usually placed in the hands of a sinking fund trustee named under the terms of a mortgage deed. It may be

\* O. H. Wolfe: Practical Banking.

invested in three ways: (1) in a bank to bear interest; (2) in bonds of other organizations; and (3) in bonds of the issuing organization. Due to the opportunity for mismanagement of sinking fund investments, it is usually considered safer to apply sinking fund payments to the purchase of the company's own bonds being amortized, thus extinguishing the very debt for which the sinking fund was created.

There are three ways in which a sinking fund may be invested in a company's own bonds: (1) purchasing and keeping alive parts of other issues; (2) purchasing and keeping alive parts of the issue being amortized; (3) purchasing and cancelling parts of the issue being amortized. The latter method is usually considered the best. It not only decreases fixed charges, but it increases the equity of the owners and strengthens the security of the bondholders. It also prevents mismanagement of the sinking fund and tends to stabilize the price by making a market for the bonds.

The purchase of the bonds being amortized may be accomplished by open market transactions, or else the mortgage deed may provide for the purchase on certain interest dates of a certain number of bonds to be called by lot, usually at a premium. In the latter case, notice is given by the sinking fund agent that in accordance with the provisions of the mortgage and deed of trust it has designated by lot, for redemption on a certain date out of moneys paid to the trustee by the issuing company, a certain sum of money for the redemption of bonds bearing the numbers stated in the notice.

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### Sinking Fund Assets

The name given to an account which represents cash or securities in which the sinking fund is invested. From an accounting and credit standpoint, these assets should be considered as applicable to the reduction of the relative liabilities. (See Sinking Fund.)

### Sinking Fund Bonds

Bonds issued under a sinking fund agreement which require the debtor organization (obligor) to set aside periodically out of earnings a sum which, with interest, will be sufficient to redeem the issue at maturity. The purpose of sinking fund bonds is to give assurance to investors that systematic provision is to be made for the repayment

of the loan and sinking fund payments become obligatory as a part of the contract. Sinking fund payments are usually made to a trust company or sinking fund trustee and are just as binding upon the issuer as interest payments, *e.g.*, failure to make sinking fund payments entitles the bondholders to the same legal rights as default in payment of interest.

Sinking fund bonds occur among both civil and corporate issues, but are more common among the latter, especially among industrial bonds. Sinking fund bonds are essential for protection of the investor in the case of extractive industries, such as coal, mining, oil, and the like, since the assets are of a wasting character. Among railroad and public utility corporations where the fixed assets must be kept intact in order that operations may continue, sinking fund bonds are not so important, and are of rare occurrence.

Among civil issues, the serial method of debt repayment has tended in recent years to replace the sinking fund method. (See Sinking Fund.)

### Sixpence

An English coin, equivalent to about 12.15 cents in United States money. (See Foreign Moneys—England.)

### Sixteen to One

The popular title to the issue raised in the campaign of 1896 between Bryan and McKinley, having reference to the coinage ratio between silver and gold. Bryan advocated the re-establishment of *Bimetallism* (q. v.) on this basis. The coinage ratio between silver and gold of 16 to 1 was established by Act of Congress in 1837, although the exact ratio is 15.988 plus. (See Free Coinage.)

### Skyrocketing

An expression to denote the rapid rise of a stock, or of the entire market, over a wide range in a short time. Such a rise is brought about by speculative enthusiasm generated by particularly favorable news.

### Slaughter

An expression to denote the sale of securities at prices far lower than warranted by intrinsic values.

### Slipping

An expression to denote a declining tendency of stock market prices.



**Slow Assets**

Same as fixed, permanent, or capital assets. (See Fixed Assets.)

**Sluggish**

An expression to denote a state of inactivity in a market, *i. e.*, a small number of transactions and slight price changes.

**Slump**

This term has two applications:

(1) An expression to denote the continued decline in prices in a market, especially when due to unfavorable trade reports.

(2) A term to describe a falling off in the volume of business in a trade or industry, or throughout the entire business structure.

**Smash**

An expression to denote an abrupt and violent decline in prices of securities or commodities creating a condition bordering on panic; a somewhat stronger expression than *Break* (*q. v.*).

**Soft**

An expression applied to a stock, or to the entire stock market, when prices have a declining tendency.

**Soft Money**

Paper money as distinguished from metallic or hard money.

**Soft Spot**

A stock exchange expression applying to any single stock which stands out prominently in the day's quotations because of its weakness, when the rest of the list maintains its strength.

**Sol**

A Peruvian money. (See Foreign Moneys—table 2.)

**Sola, Sola Bill**

A foreign check or bill of exchange consisting of one document as distinguished from a check or bill drawn in a set, *i. e.*, in duplicate or triplicate. Foreign checks and bills of exchange are normally issued in duplicate and transmitted on separate steamers. A sola check or bill is not of usual occurrence. Such a check or bill would be phrased, "Pay this Sola Bill of Exchange to the order of," or the word "Sole" would be printed in large type across the face. (See First of Exchange.)

**Sole, Sole of Exchange, Solus**

Other terms used synonymously with *Sola* or *Sola Bill* (*q. v.*).

**Solvency**

The normal condition of a business—when assets exceed liabilities (not including net worth). (See Business Solvency, Financial Solvency.)

**Sovereign**

The pound sterling, equivalent to \$4.8665 in United States money. (See Foreign Moneys—England.)

**Special Agent**

See Agent.

**Special Assessment Bonds**

Bonds issued by municipalities for obtaining funds to finance improvements, the benefits of which are purely local in character, such as parks, drainage ditches, sewers, sidewalks, etc. While these bonds are obligations of a municipality or district, the principal and interest are payable by levying a special tax upon the property benefited, and not by the municipality as a whole; thus, bonds issued for the construction of a drainage sewer may be repaid by levying taxes upon the property benefited by such drainage. Usually the locality benefited organizes itself into a district which exists solely for the purpose of financing the proposed improvement and which alone bears the cost. As investments, special assessment bonds lie midway between municipal bonds and promises to pay by private obligors. (See Semi-Municipal Bonds.)

**Special Depository**

See Depository, Reserve Depository.

**Special Deposits**

See Deposits.

**Special Indorsement**

See Indorsement.

**Specialists**

A name given to a class of stock exchange members—usually room traders—who specialize in a single stock or group of stocks belonging to the same industry. These members become expert in the knowledge of such stocks, and since they are usually on the floor, they derive considerable business from other brokers who place orders with them.

**Special Mercantile Agencies**

See Mercantile Agencies.

**Specialties**

A stock market expression to denote those securities which are temporarily attracting special interest. The expression is also used in reference to the important securities dealt in by stock exchanges other than the New York Stock Exchange. For instance, the Boston Stock Exchange specializes in copper stocks.

**Specie**

A general term to denote metallic money—gold or silver coins—as distinguished from paper money and credit instruments (checks, notes, and the like). The term is also sometimes applied to gold and silver bullion.

**Specie Payments**

Payment in coin or bullion, as distinguished from payment in paper money which may be inconvertible, *i. e.*, not redeemable in coin. Practically all of the banks in the United States suspended specie payments on their notes during the panics of 1814, 1837 and 1857. The greenbacks issued by the United States Government during the war failed to specify a method or time of redemption. Since they were not supported by an adequate gold reserve and were merely government promises to pay, they greatly depreciated in value. The Specie Resumption Act of 1875, however, provided that the Secretary of the Treasury should, "on and after January 1, 1879, redeem in gold coin the United States legal tender notes outstanding, on their presentation for redemption at the office of the Assistant Treasurer of the United States in the City of New York, in sums of not less than \$50." Even before this date, and ever since, legal tender notes have been maintained on a parity with gold. (See United States Notes.)

**Specie Point**

See Gold Points.

**Specie Resumption Act**

See Specie Payments.

**Specifications**

A term used among foreign exchange clerks to denote the terms applicable to bills of exchange drawn under letters of credit. Letters of credit specify in minute detail the terms which must be followed in drawing

bills thereunder, *e. g.*, amount, nature of shipment, terms of draft, expiry date, currency, documents to accompany bill, etc.

**Specific Guaranty**

See Guaranty.

**Specific Legacy**

See Legacy.

**Speculation**

This term is used in both a broad and narrow sense. In its broadest sense, speculation is risk-taking, *i. e.*, taking money risks with a prospect of gain, but with a chance of loss. The degree of risk in speculation depends upon how accurately the elements entering into the risk can be scientifically (statistically) calculated, and future developments based upon such calculations can be forecasted. Speculation is a necessary and unescapable element in business, *i. e.*, all business by its inherent nature is a continuous speculation, since many elements cannot be exactly forecasted. The term is sometimes specially applied to speculation in which a person engages outside of his usual business undertaking, or else to undertakings which are extraordinarily hazardous. Speculation which is inherent in business may be known as primary speculation since it cannot be avoided. When speculation is incidental to the main business undertaken, for example, stock market operations, it may be called secondary or incidental speculation. An unknown writer says: "All business is uncertain—all business is speculation; the term 'speculation,' however, is commonly restricted to business of exceptional uncertainty. The uninitiated believe that chance is so large a part of speculation that it is subject to no rules, is governed by no laws; this is a serious error."

From a broad economic standpoint, therefore, speculation is a necessary business function in which the speculator (the business man) hazards his money for the sake of profit. Profit is the reward for taking the risk of uncertain future developments, which are uninsurable. When speculative risks are borne by the professional class who are in a position to calculate the uncertain elements within reasonable limits of error, and who can protect themselves against disastrous losses by an understanding of speculative principles (technique of the market, business barometers, hedging, options, etc.), society gains because the cost of taking these risks is thereby reduced.

In a narrower sense, the term applies to what has been previously defined as incidental speculation. H. S. Martin\* says: "Speculation is also called by the name of the article speculated in, such as a business speculation, real estate speculation, cotton, grain, wool, sugar, stock, coffee, produce, or other speculation. When speculation in any one of these commodities is engaged in, a highly specialized type of professional speculation is developed and in modern business organizations professional speculators trading in these commodities are numerous."

Due to the losses arising in speculative commitments, especially by the uninitiated who engage in secondary speculation without a knowledge of its principles, speculation is sometimes confused with gambling. Strictly, however, gambling is based on pure chance without the use of intelligence or foresight; no result is accomplished and what one man gains another man loses. Speculation differs from gambling in that it implies taking risks which are subject to analysis, interpretation, and measurement, and thus become amenable to scientific forecast. Necessary speculation is a productive economic function since it must be borne by business men as a class in overcoming the uncertainties of the future, especially with reference to price changes. A person who speculates in business or in stock or commodity transactions without being fortified by knowledge, judgment and experience, however, is akin to a gambler because he "goes it blindly." In this connection the Hughes Committee which investigated the Stock Exchange in 1909 said: "A real distinction exists between speculation which is carried on by persons of means and experience and based on an intelligent forecast, and that which is carried on by persons without these qualifications, the former is closely connected with regular business." It may be added that the latter is associated with gambling.

Speculation and investment are also often confused. The line of demarcation between these two terms is difficult to draw since they are customarily used in a loose rather than a technical sense. The Ticker and Investment Digest (New York) regularly prints in each issue the following distinction: "Speculation: Operations wherein intelligent foresight is employed for the purpose of deriving a profit from price changes. Investment: The placing of capital in a more or less permanent way mainly for the income to be derived therefrom." In brokerage circles it is commonly assumed that a se-

curity purchased with the intention of holding it permanently is an investment, whereas one purchased with the intention of selling it as soon as a favorable opportunity occurs is a speculation. It is also generally supposed that securities purchased on margin represent speculative commitments as contradistinguished from securities purchased outright which represent investments. These are loose popular acceptances of the terms.

Technically, the distinction between investment and speculation rests upon the degree of safety of the capital sum committed. In an investment, the relation between the original money outlay and the final return is certain and stipulated in a contract, *e. g.*, the secured bond of a responsible debtor. The owner of a bond possesses an enforceable contract with assets often placed as security in which the debtor promises to pay a stipulated sum of money at a certain rate of interest on a definite maturity date. A contractual relationship exists between the bondholder and debtor in which the present and future terms of the debt are fully set forth. In speculation, however, the relation between the original outlay and final return is uncertain, *e. g.*, a business, shares of stock, farm, oil lease, foreign exchange, patent, merchandise bought for resale, etc. A share of stock is a speculation because it is not a contract to pay a definite sum, and has no maturity. Its value may rise; or it may fall and even become worthless. This technical concept of speculation is ably defined by A. C. Whitaker\* thus: "The assumption of risk involved in the making of an outlay in money (or money's worth), or the committing of one's self to make such an outlay in the future (whether the commitment be absolute or conditional), for a return in money, or its worth, in any instance where the relation or proportion between the outlay and return is uncertain. Outlay may be certain and return uncertain, or reversely, or both may be uncertain."

In no market is there greater speculative interest than in the stock market, although speculative activity also reaches high levels on the Chicago Board of Trade and the New York Cotton Exchange. To speak in Wall Street terms, speculation is engaged in by four classes: professional speculators (usually members of the exchange), amateur speculators, investors, and the public. Some of the factors which a successful stock speculator must give attention to, are: (1) relationship of current prices of individual stocks to their fluctuating range; (2) re-

\* New York Stock Exchange, p. 20.

\* Foreign Exchange, p. 381.



relationship of current prices to market averages; (3) relationship of the time of commitments to the stage in the business cycle; (4) general business conditions as shown by business barometers; (5) particular conditions in the corporations in whose securities commitments have been made; (6) money rates and credit conditions; and (7) technical position of the market.

For further information upon the principles of stock trading, see Business Barometers, Business Cycle, Business Forecasting Services, Fluctuating Principle, Fundamental Conditions, Industrial Stocks, Investment, Gambling, Market Average, Market Sentiment, Mining Securities, Speculative Cycle.

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See also Bibliographies in connection with the terms, *Investment* and *Wall Street*.

#### Speculative Cycle

A period of rising security prices followed by a period of falling prices and definitely related to the *Business Cycle* (q. v.). A wave covering a number of years in which security prices pass through a peak and valley, i. e., a successive major upward and downward swing. A speculative cycle is popularly described as possessing three stages. After a bear market and prices have reached bottom there is a period of accumulation during which prices of stocks move forward very gradually. This is the

first stage. The second stage is that in which the leading barometers indicate a return to normal conditions, ultimately leading to prosperity. This is called the period of advance, and is characterized by active bidding up of security prices. The third and last stage is that of distribution. During this stage business is at boom proportions, but credit becomes tight and interest rates rise. Insiders, experienced speculators, and large financial interests sell their stocks while prosperity is at its height and prices are still high, knowing that the period of prosperity must finally collapse and give way to depression.

The high and low points of the speculative cycles in the United States since 1903 are given in the following table:

<i>Low</i>	<i>High</i>
October 1903	February 1906
November 1907	September 1909
August 1910	October 1912
January 1915	December 1916
December 1917	November 1919
August 1921	March 1923

No bull movement in the last twenty-two years has had a duration of less than twenty-one months. Bear movements, however, have sometimes run a shorter course. (See Business Cycle, Business Forecasting Services, Swings.)

### Speculative Investments

Securities which although not entitled to an investment rating, because dependent upon the earnings of the business, are supported by adequate assets, skillful management, large reserves, and possess reasonable prospects of improvement in standing.

### Speculator

A person who specializes in the profession of risk-taking. One who hazards his money, effort and time in the taking of risks of speculation, for the purpose of gain. (See Speculation.)

### Split

The execution of an order in two or more parts at different prices, *e. g.*, an order to sell 2,000 shares might be executed on two different days in lots of 1,000 shares at different prices, due to the inability of finding a market at suitable prices in one day.

### Split Order

See Split.

### Split Proof System

Same as *Block System* (q. v.).

### Split Quotations

The smallest regular variation in quotations on the New York Stock Exchange is  $\frac{1}{8}$  point. In a split quotation, the  $\frac{1}{8}$  is divided in half, resulting in  $\frac{1}{16}$ , *e. g.*, 51  $\frac{3}{16}$ .

### Spot

An adjective which is used in conjunction with commodities, *e. g.*, foreign exchange, wheat, grain, oats, cotton, etc., indicating readiness for immediate, as distinguished from future, delivery.

### Spot Cash

Immediate cash available or given for a purchase involving immediate delivery.

### Spot Grain

See Spot.

### Spot Price

Cash price; a price quoted for commodities, including foreign exchange, which are ready for immediate delivery for cash, as distinguished from the price quoted for futures, *i. e.*, commodities for future delivery.

### Spot Sale

A sale in which cash is paid for immediate delivery, as distinguished from a future sale.

### Spotted

An expression used to describe stock market prices when a certain few securities advance or decline, although the majority show no definite trend, but rather remain stationary. The securities which are conspicuous for resisting the trend, or which show a counter movement are called market spots.

(See Hard Spot, Soft Spot.)

### Spotty

See Spotted.

### Spread

A combination of a put and a call, by which the purchaser has the privilege of "putting" at one price, or "calling" at another price a certain security (securities) or commodity (commodities), stated in the

contract, within the contract period. A *Straddle* (q. v.) is similar to a spread except that the put and call prices are the same.

### Spurt

An expression used to denote a sudden and appreciable advance in stock or produce market prices achieved by a series of fractional movements rather than by jumps of a point or more.

### Squeeze

An expression used to refer to the condition when short sellers are forced to cover their contracts at a loss, due to rising prices, fearing that prices will mount higher.

A money squeeze refers to a temporary shortage in the supply of loanable funds accompanied by difficulty in borrowing and marking up of interest rates.

### Stabilized Dollar

A name given to a theoretical dollar having constant purchasing power by Professor Irving Fisher of Yale University in his book entitled "Stabilizing the Dollar." The theory of the stabilized or compensated dollar is to convert the present gold standard into a true commodity standard, *i. e.*, to standardize the dollar as a unit of purchasing power. Instead of a gold dollar having a constant weight and varying purchasing power, there would be a gold dollar of constant purchasing power and varying weight.

The proposed method by which this plan would become effective is to increase the weight of the gold dollar to compensate for its depreciation in purchasing power. The degree of change in purchasing power would be ascertained by a reference to carefully prepared *Index Numbers* (q. v.). Under this plan present gold coins would be relegated to the status of token coins which would entitle the holder to a varying quantity of gold bullion. Appraisals of changes in the value of money would be made by reference to index numbers quarterly or annually.

The chief criticisms directed against the stabilized dollar plan are: (1) The increase in gold is only one of the causes of higher prices; (2) the plan would destroy the function of price since price fluctuations are guides to production and consumption; (3) it would not prevent sharp fluctuations from week to week which are more dangerous than a general trend upward or downward,

since in the latter the general scale is maintained; and (4) difficulty of administration. (See Money.)

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### Stagnation

An expression describing the condition on a stock exchange, or in general business, when volume is small and trading inactive.

### Stale Check

See Check, Date.

### Stamped Security

A bond or stock which has been stamped at some time subsequent to the original issuing date to show some change in its status—a new condition to which it is subject, or privilege to which it is entitled. It implies an addendum to the original agreement for the purpose of reinforcing the security or otherwise. *Extended Bonds* (q. v.) are very often stamped.

Sometimes the term is used to apply to securities which are subject to a stamp tax and on which such tax has been paid.

### Stamp Tax

Revenue taxes are levied on foreign bills of exchange by most countries. The rate on checks is usually nominal (except in Canada), and the rate on sight bills is always lower than on time bills. The customary rates on long bills range from 1/10 to 1/50 per cent.

### Standard Bullion

Gold or silver bullion having precisely the same composition as gold or silver coins, *i. e.*, bullion ready for coinage without refining. Standard bullion consists of 900 parts of pure gold or silver and 100 parts of copper alloy, *i. e.*, gold or silver nine-tenths fine. The coinage value of an ounce of pure gold is \$20.67134+; of standard gold \$18.60465. The coinage value of an ounce of silver is \$1.2929+; of standard silver, \$1.1636. (See Coinage, Mint.)

### Standard Copper

See Copper.

### Standard Money

The money selected by a government to serve as the basis of its currency system.



Standard money has three fundamental characteristics: (1) freely coined by the Government mint for private citizens without limitation as to quantity; (2) full and unqualified legal tender value in payment of all debts; (3) full bullion value, *i. e.*, the metal or bullion value is identical with the coin value except in countries which charge seigniorage). Gold is the standard money of the leading commercial nations, although silver is still used by China, Persia, and a few other countries.

Under bimetallism, the coins manufactured from two metals circulate concurrently as standard money, usually gold and silver. Bimetallism has been abandoned by all the countries which have tried the experiment. (See Bimetallism, Monetary Unit, Standard of Value.)

### Standard of Value

One of the functions of money is to serve as a standard of value, *i. e.*, a common denominator, or yardstick for determining the amount of another commodity which may be commanded in exchange. For instance, when a bushel of wheat sells for \$1, it exchanges for 23.22 grains of pure gold. To serve as a good standard of value, a metal must not only have intrinsic value in itself, but stability of value in order to prevent undue fluctuations in the price level. Gold answers these requirements probably better than any other commodity, although not perfectly, since it is a commodity of universal acceptability and normally its fluctuation in value is slight. (See Gold Standard, Monetary Unit, Standard Money.)

### Standard of Weight and Fineness

See Present Standard of Weight and Fineness.

### Standard Stocks

Tested or seasoned stocks; stocks of well-known companies having large assets, demonstrated earning power, a long dividend record, and a skillful and conservative management. The term has reference to stocks, the value of which, though influenced by current earnings, are relatively stable, being subject to only moderate fluctuations.

### State Bank

A bank operating under a charter granted by one of the states, as distinguished from trust companies and savings banks, which though organized under state laws, conduct a different type of business, and from

National banks which operate under charters issued by the Comptroller of the Currency. State banks, like National banks, are organized primarily for conducting a general banking business and together constitute the class of banks generally known as commercial. The state banking laws are modeled after the National Bank Act and grant approximately the same powers, but the regulations, generally speaking, are not quite so stringent. In order to exhibit the relative advantages of state and National banks, the following comparisons are offered:

(1) No National bank can be organized with less than \$25,000 capital. In some states, a state bank can be organized with a capital of \$10,000, thus making it possible for a small town to secure banking facilities when conditions would not justify a National bank.

(2) State banks are not permitted to issue circulating notes without the payment of a 10 per cent. tax, which is prohibitive.

(3) Restrictions upon loans are less rigid in the case of state banks; some state banks may loan more than 10 per cent. of their capital and surplus to one customer, and almost without exception are permitted to loan a higher percentage upon the appraised value of real estate than are National banks. State banks are usually permitted to make second mortgages, while National banks are not.

(4) Both are subject to examination; National banks by the Comptroller of the Currency, and state banks by the *State Banking Department* (q. v.).

(5) National banks are required to join the Federal Reserve System, where reserves must be kept without earning interest. They must also accept checks drawn upon them and received from out of town points, at par. Entry of state banks into the Federal Reserve System is optional. If not members, they are not required to accept checks drawn upon them at par.

### State Bank Examiners

See Bank Examiners.

### State Banking Department

Each state has created a department, usually known as the State Banking Department, charged with the execution of the laws relating to the various types of banking institutions located in and chartered by the state. In most states, including New York, the chief officer of this department, usually appointed by the governor, is called the Superintendent of Banks. In other states he is known by various titles, *e. g.*, "Commis-

sioner of Banking" (Massachusetts), "Auditor" (Illinois), "Commissioner of Banking and Insurance" (New Jersey).

The superintendent or head of the banking department is under bond and is authorized to appoint such deputies, examiners and clerks as may be necessary to carry out the duties imposed upon him. The principal duties of the department are: (1) to examine all banks chartered by the state as often as required by law (usually twice a year); (2) to pass upon applications for charters from petitioning organizers; (3) to terminate, liquidate and distribute the assets of any bank which may become bankrupt, as prescribed by law. The expenses of the department are usually defrayed by assessments upon the banking institutions examined.

### State Bonds

A sub-classification of civil bonds; bonds which are the obligations of the people of a state, as distinguished from bonds of the Federal Government, and bonds of such governmentalities as cities, counties, districts, etc. In most states, a state bond issue must be authorized by a direct vote of the people. State bonds, like Federal Government bonds, may be paid out of the general revenues, and it is not necessary to levy a special tax for their payment.

Like the Federal Government, however, a state, being a sovereign power, cannot be sued by an individual or private corporation against its consent. Theoretically, therefore, a state may repudiate its debts, and an investor has no means of enforcing payment. In early periods of our history some of the states repudiated their bonds and for this reason State bonds are to some extent still in disrepute. (See Repudiation.) In recent years, however, the investment value of state bonds has become generally admitted—even the bonds of those states formerly guilty of repudiation.

Several means have been adopted by a number of the states to strengthen their credit and develop a better market for their issues. One means is to place a provision in the bond contract which makes them sueable in case of default. Wherever the State Constitution provides this sanction, the uncertainty of the ultimate payment of state bonds is removed.

Another means of enforcing payment is through a contractual provision to levy certain taxes for the payment of the principal and interest on the bonds. Since the Federal constitution prohibits a state from passing legislation impairing the obligation of a con-

tract, and a debt constitutes a contract, a state official—comptroller for instance—may be sued to enforce the levying of a tax to raise funds for the payment of the debt.

The tendency of public expenditures is in the direction of increase of city rather than of state. The amount of state bonds outstanding is therefore small in comparison with Federal Government and municipal issues. Many states have no bonded debt at all, and in most cases, a debt limit is provided.

By a Supreme Court decision, state bonds are exempt from Federal taxes. They are also usually exempt from state and local taxes to holders within the state of issue.

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### State Comptroller

An officer of a state whose purpose it is to supervise and control its fiscal operations. In connection with the banking system, it is usually his function to approve the bond of the Superintendent of Banks and to designate depositaries for trust funds and moneys paid into court.

### Statement

This term has two applications:

- (1) A statement of condition, or balance sheet. (See Balance Sheet, Bank Statement.)
- (2) See Statement of Account.

### Statement Analysis

A term used by bank credit men in reference to that part of the process of measuring a credit risk which is determinable through an analytical study of its balance sheets, and in particular comparative balance sheets taken over a period of years. In modern scientific credit granting, a prospective commercial borrower is required to submit his financial statements in order that the business and property risks can be measured, *i. e.*, to determine whether the property values therein indicated and the profits which such property yield, form an adequate basis for securing the proposed loan.

When statements are received by a bank, they are first placed in analysis form on "statement comparison sheets." By comparing one period with another the rate of growth or retrogression, and changes in separate assets, liabilities, and equities, can be shown. Actual conclusions are arrived at after a thorough study of the separate items

on the statement, and a scrutiny of the various balance sheet tests, *e. g.*, current ratio, ratio of current assets to total liabilities, merchandise turnover, account turnover, etc. (See Account Turnover, Current Ratio, Merchandise Turnover, Ratio of Current Assets to Total Liabilities, Ratio of Debt to Net Worth, Ratio of Fixed Assets to Net Worth, Ratio of Merchandise to Receivables, Ratio of Net Profits to Net Worth.)

### Statement Comparisons

See Statement Analysis.

### Statement Department

The department of a bank or other financial institution that has charge of the preparation and forwarding of customers' statements of account. In modern banking, statements of account are rendered in two ways, by balancing pass books or by the statement system, but the latter is nowadays practically universal. Statements are duplicates of the ledger accounts except that all entries are shown in detail.

In many banks, statements are prepared on billing machines (combination typewriters and adding machines), which are provided with counters or registers that automatically record and print additions and subtractions with resulting balances. The debits are posted to the statements in complete detail, each separate check drawn by the depositor and each charge ticket or other posting medium being listed thereon. Likewise, each credit whether posted from a deposit slip, letter, credit ticket, or other posting medium, is listed.

The statement department may be considered a part of the individual bookkeeping department. Wherever separate clerks operate the ledgers and statements, it is necessary that they verify their work frequently, and always before statements are forwarded to customers. (See Statement of Account, Voucher Department.)

### Statement of Account

A continuous daily posted record, showing in detail all debits and credits, and balance as of the close of the period, usually one month, rendered by a commercial bank, broker, or other business, to its customers. These accounts give dates and descriptions, and permit the customer to verify the bank's record with his own. If differences occur, they can then be investigated by reporting back

through the reconciliation blank usually enclosed with the statement. (See Reconciliation of Accounts.)

### State Street

The street in Boston where most of the financial institutions are located, and by extension, a popular name for financial Boston.

### Statistical Department

In a bank, the statistical department usually known as the *Analysis Department* (*q. v.*), analyses accounts to determine whether or not they are profitable, or the extent to which they are profitable.

In an investment or brokerage house, a statistical department is maintained as a service department in aid of salesmen and customers. It is this department that studies and prepares the statistical data that is furnished with prospectuses, bond and stock circulars, and other advertising material. The work of this department oftentimes embraces a wide field of investigation with a view of assisting the house and its clients to make intelligent decisions in their investment selections. (See Bank Cost-Accounting.)

### Statistical Services

See Business Forecasting Services, Financial Magazines, Financial Newspapers, Manuals, Mercantile Agencies.

### Statistics

The mathematical method applied to business and social sciences. (See Business Barometers, Index-Numbers.)

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### Statute of Limitations

Whenever a right of action arises as a result of breach of contract, personal injury, or the like, suit must be brought within a reasonable time, fixed by the statute of limitations. At the expiration of the period fixed by this statute, legal remedy is forever barred. The period fixed by the statute of limitations varies among the several states according to the different types of action, as shown in the following table:



States and Territories.	Judgments, Years.	Notes Years.	Open Accounts, Years.
Alabama .....	20	6	3
Alaska .....	10	6	6
Arkansas .....	10	5	3
Arizona .....	4	4	3
California .....	5	4	4
Colorado .....	20	6	6
Connecticut ...	(k)	6	6
Delaware .....	10(h)	6	3
Dist. of Col. ..	12	3	3
Florida .....	20	5	3
Georgia .....	7	6	4
Hawaii .....	20	6	6
Idaho .....	6	5	4
Illinois .....	7	10	5
Indiana .....	20	10	6
Iowa .....	(d)	10	5
Kansas .....	5	5	3
Kentucky .....	15	15	5
Louisiana .....	10	5	3
Maine .....	6-20	6-20	6
Maryland .....	12	3	3
Massachusetts ..	6(c)	6	6
Minnesota .....	10	6	6
Michigan .....	10	6	6
Mississippi ...	7	6	3
Missouri .....	10	10	5
Montana .....	10	8	5
Nebraska .....	5	5	4
Nevada .....	6	6	4
New Hamp. ..	20	6	6
New Jersey ..	20	6	6
New Mexico..	7	6	4
New York ...	20(j)	6	*6
N. Carolina ...	10	†3	3
N. Dakota ...	10	6	6
Ohio .....	21	15	6
Oklahoma .....	5	5	3
Oregon .....	10	6	6
Pa. ....	5(f)	‡6	6
Porto Rico ..	5	3	3
Rhode Island..	20	6	6
S. Carolina ...	10	6	6
S. Dakota .....	20	6	6
Tennessee .....	10	6	6
Texas .....	10	4	2-4
Utah .....	8	6	4
Vermont .....	6	6(n)	6
Virginia .....	20	†5	3
Washington ...	6	6	3
W. Virginia ..	10	10	5
Wisconsin .....	20(b)	6	6
Wyoming .....	10	10	8

(k) No limit. (h) Subject to renewal. (d) Thirty-five years in Courts of Record eighteen years in inferior courts. (c) Witnessed, 20 years. (j) Not of record, six years. \* Six years from last item on either side. † Under seal, 10 years. (f) Ceases to be a lien after the period unless revived. ‡ Under seal, 20 years. (n) Except witnessed promissory note, 14 years. (b) Justice Court judgments, 6 years.

### Steady

A stock market expression to denote that prices generally, or for a certain group of stocks, are firm and show little fluctuation.

### Steamer Date

A term used among foreign exchange dealers to denote the time of departure of the next steamer carrying mail to the foreign port in question. The steamer date is important in calculating the probable time required for transmitting a foreign check, bill of exchange, or letter of credit, to a given point abroad. Market bills (large bankers' bills dealt in between banks) are usually payable to the seller on the steamer date.

### Steel the Barometer of Trade

In business circles, the conditions in the iron and steel industries—the great basic industries—are regarded as indicative of the conditions which other industries are likely to experience and therefore reflect general business conditions. "As steel goes, so goes the country" is a truism accepted as axiomatic among bankers, business men and analysts. The United States Steel Corporation which produces nearly half of the country's steel output, issues monthly reports which show current production figures in the trade. This makes it possible to ascertain with greater accuracy than in most types of business the state of activity. The high point of activity of these industries is usually regarded as marking the height of an inflation period, and the bottom, the end of the period of depression, or the revival starting-point. It is well known among economists and business analysts, for instance, through a study of trade cycles, that the iron and steel industries are the last to become deflated in a period of liquidation. Correspondingly, they are the last to revive, or "turn the corner." Due to the growth in size and diversity of industry considered as a totality in the last two decades, the steel industry is probably not entitled to the barometric value it once had.

In speculative circles, the common stock of the United States Steel is regarded as the leader, and is the most actively traded stock on the exchange. Representing the leading basic industry and reflecting its prosperity and earnings, it is only logical that if conditions within this industry reflect general business conditions, other stocks should tend to move more or less in sympathy with it. (See Business Barometers.)

## Sterling

A common term for British money of whatever denomination, and whether gold, silver, or bank notes. The British refer to their money as "pounds" or "sterling," or to pounds as "pounds sterling." By extension this term has assumed a metaphorical meaning indicative of purity or high quality, *e. g.*, "sterling silver," "sterling character," and the like.

## Sterling Bills

Bills of exchange payable in British currency, *i. e.*, pounds sterling.

## Sterling Bonds

Bonds, the principal and interest of which, is payable in British currency; *i. e.*, pounds sterling.

## Sterling Credits

Letters of credit, the specifications for which call for drawing bills of exchange payable in pounds sterling.

## Sterling Exchange

Exchange, *i. e.*, checks and bills drawn against bank balances on points in Great Britain. Since London is the banking center of Britain, and the principal banks maintain head offices there, sterling exchange almost invariably affects balances in London banks. Sterling exchange is therefore practically synonymous with London exchange.

## Stiffened

A stock market expression to denote that prices have hardened *i. e.*, slightly advanced.

## Stiver

A money of Netherlands. (See Foreign Moneys—table 2.)

## Stock

This term has three meanings:

(1) In the United States this term is used synonymously with *Capital Stock* (q. v.), and with *Share* (q. v.).

(2) In Great Britain, this term is generally synonymous with debenture bonds, whether issued by a corporation (company), or the Government, or civil division thereof. For instance, Government and municipal loans are referred to as Government or corporation (meaning municipal in England) stock. Company stock is held and transferred in any multiples of one pound and

sometimes less, while shares are for fixed denominations.

(3) In business usage, the term means goods, merchandise, or finished product; thus, stock of goods. (See Merchandise Turn-over.)

## Stock Allotment Warrant

See Subscription Warrant.

## Stock Assessment

See Assessment.

## Stock Bills

Bills of exchange drawn against and accompanied by stocks or investment securities which are deliverable upon payment of such bills.

## Stock Broker

See Stock Exchange Broker.

## Stock Certificate

A receipt or certificate of ownership, signifying that the person whose name is written thereon is the owner of a certain portion of the capital stock of the designated corporation. The extent of ownership is indicated by the ratio of the number of shares held to the total number of shares outstanding; thus, if one owns ten shares in a corporation having an outstanding capital stock of \$1,000,000 (\$100 par value), he owns 1/100 of the undivided assets. Stock certificates are printed, lithographed, or engraved forms. To guard against fraudulent and forged securities, the principal stock exchanges of the world require securities dealt thereon to be engraved. With this precaution, it is possible for a stock exchange to guarantee the physical genuineness of its securities.

Stock certificates may be divided into two types; simple certificates which contain a plain statement of ownership, and certificates which contain a digest of the terms governing the stock. The following are the essentials of a stock certificate:

1. Number of certificate.
2. Number of shares owned.
3. Par value (or without par).
4. Name of issuing corporation.
5. State of incorporation.
6. Total authorized capital stock.
7. Whether common or preferred.
8. Body

(a) May be simple certificate

- (1) To whom issued (name of stockholder).

- (2) Number of shares issued to the owner.
- (3) How transferable.
- (b) May contain agreement.
  - (1) To whom issued (name of stockholder).
  - (2) Number of shares owned.
  - (3) Whether fully paid and unassessable.
  - (4) Voting power.
  - (5) If preferred, whether cumulative or non-cumulative.
  - (6) If preferred, what dividend rate.
  - (7) How transferable.
  - (8) Disposition of assets in event of dissolution.
  - (9) Signatures of two officers.
  - (10) Corporate seal.
  - (11) Registrar.
  - (12) Transfer agent.
  - (13) (On reverse side Blank form of assignment.)

(See Capital Stock, Stockholder.)

### Stock Clearing Corporation

See New York Stock Exchange Clearing House.

### Stock Dividend

A dividend paid to stockholders in shares of stock of the issuing corporation. Such shares are issued to stockholders of record out of the unissued stock of the corporation, or in case all the stock has been issued, the charter is amended so as to authorize additional capital stock. For example, suppose a company with a capital stock of \$1,000,000 issued and outstanding (\$2,000,000 authorized) and a surplus (accumulated out of earnings) of \$500,000, finds that its earnings have averaged 12 per cent. on the outstanding stock for a period of ten years and that current dividends at 6 per cent. can in all probability be maintained on an additional issue of \$200,000. In such a situation, a stock dividend of 20 per cent may be declared without violating the rules of conservative corporation finance. If a 20 per cent. stock dividend is declared, the disbursement will entitle each present stockholder to receive one additional share for every five shares held. A stock dividend involves no payment of cash, but it is frequently advantageous because the psychology of the market is such that the market value of six shares after the stock dividend has been declared, will probably be greater than five shares previous to the dividend announcement. More persons are able to buy a greater number of

shares by reason of the lower price. Furthermore, while the stock dividend involves no cash, it confers upon the stockholders the right to increased dividends, provided the same rate is maintained.

From an accounting standpoint, the stock dividend in the above example merely involves a transfer of \$200,000 from the surplus account to the capital stock account. The net worth of the corporation is in nowise changed and in this sense a stock dividend is in reality no dividend at all, since the stockholder's equity in the assets of the corporation is no greater than before. There is only a presumption that the stockholder will receive increased dividends.

The new shares issued upon the disbursement of a stock dividend are fully paid, since they are charged against accumulated undivided profits previously earned, and retained by reinvesting them in the business. When the directors declare a stock dividend it is popularly referred to as "cutting a melon." (See Dividend.)

### Stock Exchange

An organized market for the purpose of trading in stocks and bonds. A stock exchange is part of the machinery of credit and banking and has a four-fold function: (1) to provide for the transfer of securities, making it possible for owners to sell securities after they are once acquired; (2) to bring actual and market values into coincidence; (3) to furnish a barometer of business conditions, since quoted prices represent the composite judgment of the entire business world; (4) aid in the promotion of new enterprises.

Exchanges may be incorporated, or voluntary associations. In America, the stock exchanges are voluntary associations. Each exchange has its own list of securities, but such list may overlap with that of others. A few listings are international. The principal stock exchanges in America are: New York Stock Exchange, New York Curb Market, New York Consolidated Stock Exchange, Chicago Stock Exchange, Philadelphia Stock Exchange, Boston Stock Exchange, Boston Curb Market, Pittsburg Stock Exchange, Baltimore Stock Exchange, Detroit Stock Exchange, St. Louis Stock Exchange, Cleveland Stock Exchange, Cincinnati Stock Exchange, Washington Stock Exchange, San Francisco Stock Exchange, Los Angeles Stock Exchange, Salt Lake City Stock Exchange.

The two principal stock exchanges of Canada are located in Montreal and Toronto.



The principal exchanges in Europe are the London Stock Exchange, Paris Bourse, Berlin Bourse, Vienna Bourse, and Amsterdam Bourse.

(See New York Stock Exchange, New York Consolidated Stock Exchange, New York Curb Market, London Stock Exchange, Paris Bourse.)

### Stock Exchange Abbreviations

See New York Stock Exchange Abbreviations.

### Stock Exchange Banks

The banks and trust companies in the Wall Street district which habitually lend a part of their credit resources to brokers, syndicates, and investment houses, for financing security transactions, investment purchases, and margin trading.

### Stock Exchange Broker

See Broker.

### Stock Exchange Clearing House

See New York Stock Exchange Clearing House.

### Stock Exchange Collateral

See Collateral.

### Stock Exchange Holidays

See Bank Holidays.

### Stock Exchange Loans

Loans made to brokers, syndicates and investment houses with securities traded on the New York Stock Exchange as collateral. (See Call Loan, Call Money Market.)

### Stock Exchange Seat

See New York Stock Exchange, Seat.

### Stockholder

The legal owner of one or more shares of stock in a corporation. At law, the owner of a stock certificate is the person whose name appears on its face and is registered in the books of the company, although the certificate may have been assigned in blank and sold to another person who has not yet transferred the stock in his name and in whom the equitable title is vested.

The ownership of stock entitles the stockholder to four rights: (1) Proportionate ownership in the undivided assets of the corporation (see Stock Certificate); (2) right

to dividends when earned, and declared by the board of directors; (3) right of proportionate control through voting power (unless specifically disallowed by the articles of incorporation or by-laws); (4) right to subscribe to additional stock before offerings are made to the general public. (See Stock, Stockholders of Record.)

### Stockholders of Record

The legal stockholders; stockholders whose names are registered in the stock registry and recorded in the stock ledger of a corporation. A stock certificate may be assigned in blank and held by another person, or lost, or stolen, but the privileges and rights to dividends, etc., still belong to the stockholder of record. (See Stock Certificate, Books Closed.)

### Stock Jobber

London Stock Exchange members are of two classes, brokers and jobbers. Each class performs a distinct function, and by the rules of the exchange one is prohibited from performing the role of the other. A broker deals with the public, executing buying and selling orders for it, but the jobber may not. The business of the latter is to act as intermediary between brokers having securities to sell and those having securities to buy. The broker receives a commission from his customer, but the jobber's compensation consists of the difference between his buying and selling price. (See London Stock Exchange.)

### Stock Market

See New York Consolidated Stock Exchange, New York Curb Market, New York Stock Exchange, Stock Exchange.

### Stock Power

An instrument which gives another the right to sell and transfer stock drawn in his name and assigned in blank. The following form is used on the New York Stock Exchange:

KNOW ALL MEN by these Presents,  
*That* .....  
 For Value Received, have bargained, sold, assigned, and transferred, and by these presents do bargain, sell, assign and transfer unto .....  
 .....  
 Shares of the .....  
 STOCK of the .....  
 .....  
 standing in ..... name on the books

of the said .....  
 represented by Certificate No. ....  
 ..... herewith  
 And ..... do hereby constitute and ap-  
 point .....  
 ..... true and lawful attorney, IR-  
 REVOCABLY, for.....and in.....  
 name and stead but to ..... use, to sell,  
 assign, transfer, and make over all or any  
 part of the said stock, and for that purpose  
 to make and execute all necessary acts of  
 assignment and transfer thereof, and to sub-  
 stitute one or more persons with like full  
 power, hereby ratifying and confirming all  
 that ..... said Attorney or .....  
 substitute or substitutes shall lawfully do by  
 virtue thereof.

In Witness Whereof, ..... have  
 hereunto set ..... hand and seal  
 at ..... the ..... day of  
 ..... 19.....

Signed, Sealed and Delivered in the presence  
 of  
 .....  
 .....  
 .....

issued, is to compare the number of shares  
 represented by the certificates with the num-  
 ber authorized, and if there are no irregulari-  
 ties, to register the certificates in its own  
 records and sign its name to each stock certi-  
 ficate. In the case of outstanding shares, it  
 is the registrar's duty to make certain that  
 each new certificate issued by the transfer  
 agent (which may be the corporation itself)  
 is accompanied by a genuine certificate rep-  
 resenting the same number of shares to be  
 cancelled. In other words, the registrar  
 must see that there is a cancellation for each  
 issuance, placing a "Canceled" stamp on old  
 certificates and validating new certificates by  
 means of its signature.

**Stock Transfer Agent**

See Stock Transfers.

**Stock Transfer Journal**

A book in which transfers of stock of a  
 corporation are authorized and recorded. It  
 is practically a duplicate of the assignment  
 appearing on the reverse of the stock certi-  
 ficate.

**Stock Purchase Warrant**

A privilege sometimes carried by a bond  
 which entitles the owner to the right to pur-  
 chase a certain number of the shares of the  
 stock of the corporation within a limited  
 period. Such warrants are usually detach-  
 able coupons which state on their face the  
 terms under which the right to buy stock  
 may be exercised. (See Rights, Subscrip-  
 tion Warrants.)

**Stock Quotations**

See Quotations, Quotation Ticker.

**Stock Registrar**

A trust company, bank, or individual, au-  
 thorized to act in a fiduciary capacity, which  
 has been appointed by a corporation to cer-  
 tify that the number of its shares issued does  
 not exceed the authorized amount, and to  
 check the work of the transfer agent. The  
 rules of the New York Stock Exchange re-  
 quire that corporations whose stocks are  
 listed thereon maintain a separate registrar  
 and transfer agent. The relation between a  
 corporation and its registrar is fixed by con-  
 tract. In the absence of any law fixing this  
 liability, and lack of court decisions on the  
 matter, this contract defines the liabilities of  
 the registrar.

The work of the registrar in the case of a  
 new corporation, or when additional stock is

**Stock Transfers**

Stock certificates are personal property  
 and ownership may pass from one person to  
 another by assignment. In case of sale, how-  
 ever, the purchaser is not recognized as the  
 legal stockholder, until a transfer has been  
 effected upon the books of the corporation.  
 This involves the cancellation of the old cer-  
 tificate and the issuance of a new one. It is  
 the duty of the transfer agent, whether an  
 officer or clerk of the corporation itself, or  
 an outside individual, bank, or trust com-  
 pany, to see that the act of transfer is  
 properly executed. When shares of stock  
 are sold it is necessary for the seller, whose  
 name is written on the face of the certificate,  
 or for an authorized representative of such  
 person, to assign the certificate. In all stock  
 transfers through the New York Stock Ex-  
 change a stock exchange member must guar-  
 antee the signature of the person making the  
 assignment, *i. e.*, the seller, who is also known  
 as the transferor.

In making transfers, it is first necessary  
 to determine whether the stock transfer  
 books are open. Transfer books are usually  
 closed for a short period in order to deter-  
 mine the list of stockholders entitled to re-  
 ceive dividends, rights, etc. Suppose "A"  
 has sold "B" a certain number of shares of  
 stock. "A" being the transferor must assign  
 the certificate to "B," the transferee. "A"

may assign in blank (on the reverse of the certificate), or he may appoint an attorney to conduct the transfer for him. In the latter case, the person so appointed must sign a power of substitution.

The assignment must be dated and witnessed and the signature of the assignor (transferor) guaranteed by a New York Stock Exchange member, or a New York bank. The name of the transferee is then filled in in the blank space on the assignment, and the certificate is taken to the transfer agent. (A list of the transfer agents for all the stocks listed on the New York Stock Exchange is provided for the use of clerks by New York bankers and brokers.)

*Transfer in which the estate of a deceased person is involved:*

When a stock certificate stands in the name of "A," a deceased person, it may be assigned by the executor or administrator of his estate. It is usually the best policy for the representative of the estate to submit the certificate to the transfer agent, with request for information as to what papers are necessary to effect the transfer. If the decedent is a testator, the following papers are usually required: (1) certified copy of the will; (2) certificate of appointment of the executor dated within six months of the date of the presentation of the certificate for transfer; (3) waiver. The requirement depends upon the state in which the transfer is effected, the state of incorporation of the corporation whose stock is transferred, and the state in which the decedent died. If the decedent died intestate, the following papers are usually supplied: (1) certified copy of the appointment of the administrator; (2) waiver.

*Transfer in which a guardian or trustee is involved:*

The procedure differs among the various states, as well as among transfer agents, but usually when a certificate is being transferred from one person to an individual or institution acting as trustee or guardian, it is not necessary to submit any documents whatever. If, however, the stock is transferred out of trusteeship or guardianship, it is invariably necessary to furnish properly authenticated papers showing the appointment of the trustee or guardian.

*Transfers involving no change of ownership:*

If Mary Smith marries and becomes Mary Smith Jones, a transfer is necessary, even though it involves no change of ownership. In such a case, the certificate should be in-

dorsed, "Mary Smith Jones, formerly Mary Smith." Sometimes the transfer agent requires such a signature to be guaranteed, in order to hold him harmless against any loss or damage which may arise by reason of the transferor's action in making the desired change. If this should prove necessary, the following form will suffice:

"We hereby certify that Mary Smith and Mary Smith Jones are one and the same person, Mary Smith having become Mary Smith Jones by marriage and that no change of ownership is involved in this transaction. We guarantee to hold you harmless from any loss or damage which may arise by reason of making the transfer as requested."

.....  
N. Y. Stock Exchange Member.

Another case in which a transfer involves no change of ownership is that of legal change of name. In such case it is necessary to submit to the transfer agent a certified copy of the document certifying such change of name.

*Transfer of stock standing in the name of a corporation:*

In order to transfer stock standing in the name of a corporation, it is necessary that the certificates be assigned by a duly authorized officer of such corporation. Such authorization consists of a resolution of the board of directors granting signatory powers to the signing officer. The resolution must also bear the seal of the corporation. Some transfer agents will accept a general resolution; others require a specific resolution, *i. e.*, authorizing each transaction. (See Assignment in Blank, Stock Certificate, Stock Registrar.)

The obligation of the transfer agent to its principal is a matter upon which, because of varying conditions, there is certain to be a difference of opinion. Certainly he must use proper precaution not to jeopardize the interests of his principal, and protect both the old and new stockholder, the former by seeing that the stock is transferred only upon a properly executed assignment, and the latter by seeing that the wording of the new certificate correctly describes its ownership.

## Stock Transfer Tax

The State of New York has enforced the collection of taxes on stock transfers since 1905. In the case of a stock having a par value, the amount of the tax is 2 cents on each \$100 or fraction thereof, of the total



par value of the shares or certificates sold, whether such aggregate par or face value is greater or less than \$100, *e. g.*, where the total par or face value of the shares involved in the transactions is \$100 or less, the tax is 2 cents; where such value is in excess of \$100 the tax is 2 cents on each \$100 or fraction thereof.

In the case of shares of stock without par value, the tax is 2 cents on the transfer or sale of each share, unless the actual selling value of such share is in excess of \$100, in which case, the tax is 2 cents on each \$100 or fraction thereof; *e. g.*, if the actual selling value of a share of stock is \$25.00, the tax is 2 cents on each share; if the actual selling value of the share is \$175, the tax is 2 cents on \$100 and 2 cents on 75 (being a fraction of \$100), making a total tax of 4 cents.

In the case of stocks having a par value, therefore, the amount of the tax is computed upon the total par value of the shares and not upon their selling price, *e. g.*, a stock having a par value of \$100 may be sold for \$25; nevertheless, the tax is reckoned upon the par value and not upon the \$25 paid.

### Stock Trust Certificate

A certificate, also known as trust certificate, issued in exchange for the stock of competitive corporations entering a "trust" or combination, turned over to a group of trustees, who direct the affairs of the combination. Usually only shares representing the controlling interest in the competing corporations are exchanged for the stock trust certificates, which retain all of the rights of the original stock, and are deposited with the trustees. (See Trust.)

### Stock Turnover

See Merchandise Turnover.

### Stock Watering

See Watered Stock.

### Stop Loss Order

An order given to a broker by a customer usually in order to protect a profit created by an advance, or to limit a loss in case of a sudden decline. In the case of a short seller, a stop loss order is employed to protect profits created by a decline and to limit losses in case of an advance. The following illustration will serve to make clear the use of a stop loss order to a speculator who has purchased stocks in anticipation of a rise.

Suppose United States Steel is purchased at 80. While the speculator anticipates that

the market will rise, he does not wish to take a large loss should his judgment prove wrong. He may therefore enter a stop loss order to sell at 75. This would not be touched in case of a small dip in prices, but in case the market develops a declining tendency, the stock might drop to a point where the order would go into effect. The broker is not bound to sell the stock at the exact stop loss order price. There may be other orders to sell the stock at 75 ahead of any given order, or else there may be no bids at that price, so the stock must be offered down until a purchaser is obtained. This means that in reality a stop loss order is executed at the best price obtainable at the time the market reaches the vicinity of 75.

The market is sometimes said to be honey-combed with stop loss orders, and that prices are manipulated so that such orders may be uncovered. Bear raids are sometimes initiated upon the stock market with that intention.

### Stop Order

See Stop Loss Order.

### Stop Orders on Pass Books

When a savings bank passbook is lost, a stop order should be issued by the depositor upon his bank. This consists of a written notice addressed to the bank, stating that passbook No.....belonging to .....has been lost, and a request to stop payment, signed by the depositor. The savings bank will then attach a slip to the depositor's ledger card with the words, "Do not pay." This will serve to remind the teller to allow no withdrawals, should the passbook be fraudulently presented.

### Stop Payment

A depositor has the legal right to stop payment on checks which he has previously drawn. This right places an obligation upon banks which must be met by maintenance of careful records and exacting and scrupulous observance of stop payment orders by paying-tellers and check-desk clerks. In order to make a bank liable, a stop payment order must be presented in writing and reach the bank on which the stopped check is drawn before it is presented. A telegraphic request to stop payment is legally enforceable, but an oral or telephone one is not. Banks usually endeavor to stop payment on oral or telephonic instructions, but are not always able to do so. A satisfactory form of stop payment order is as follows:



### Straight Paper

A general term for all classes of unsecured notes, acceptances, and bills of exchange. A straight loan is one without collateral security. (See Single-Name Paper.)

### Street

A popular name for the New York financial district. (See Wall Street.)

### Street Broker

A broker, not a member of any stock exchange, who buys and sells unlisted securities for his clients. A market for inactive, unlisted securities is often difficult to locate, and such a broker is especially useful to those who employ his services for this purpose—banks, investment houses, security dealers, and other brokers. Street brokers' commissions are not regulated as in the case of commissions of stock exchange members. Commissions are limited only by the terms arranged with clients.

### Street Certificate

A stock exchange broker's name for stock certificates which have been transferred in blank and on that account negotiable by delivery without further indorsement or transfer upon the books of the company. A street certificate must be indorsed in blank by the registered owner and guaranteed by a responsible broker. It then may be bought, sold and transferred any number of times without being transferred on the books of the company. Street certificates are the customary form of stock certificates serving as collateral to margin accounts. In trading on margin, these certificates are adequate, but when the stock is purchased outright, or taken up by a margin purchaser, the street certificate must be taken to the company's transfer office and a new certificate issued in the name of the purchaser. Should the new certificate, after being registered in the name of the owner on the books of the company, be sold, indorsed in blank by its registered owner and properly guaranteed, it would again become a street certificate.

### Street Improvement Bonds

A sub-classification of municipal or special assessment bonds issued for the purpose of paving or repairing streets. Usually these bonds are special assessment bonds, *i. e.*, the obligation of the taxpayers whose property is benefited, and not of the entire municipality. (See Semi-Municipal Bonds, Special Assessment Bonds.)

### Street Loan

Another term for *Call Loan* (q. v.).

### Street Railway Bonds

A class of public utility bonds, usually secured by street railway property. Street railways are natural monopolies and share with other public utilities the general principle that being monopolies affected with a public interest, their rates should be regulated. There are two methods by which the rates charged by street railways are limited: (1) where the rates are specified, and the rate regulating powers vested in the municipality by the franchise contract, and (2) where rates are regulated by a public service commission. From the investor's point of view, the latter type is more satisfactory. The modern tendency of public service commissions is to adjust the street railway fares to permit a fair return upon the capital invested in the property, and the recent attitude of public service commissions has been one of protecting the interests of the investor through the allowance of fare increases.

Generally speaking, street railway bonds are a good investment if secured by property, which at replacement value, does not exceed the bond issue and where rate regulation is left to the public service commission. In recent years street railways have been somewhat injured by competition from municipally owned or licensed bus lines. (See Public Utility Bonds.)

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### Stringency

A term used in conjunction with money and credit conditions to indicate that credit is tight and borrowers are experiencing difficulty in procuring funds. During a money stringency, money rates, especially in the call loan market, are high, and banks and business houses exercise caution and discretion in granting credit. If the stringency is severe, credit can be obtained only by the highest class risks who can furnish the most conservative collateral. A money stringency is one of the characteristics of a period of expansion, inflation and speculation, reaching its highest expression at a time of crisis or panic, when it becomes the chief characteristic. Before the Federal Reserve System, which introduced elastic currency and perfected elastic bank credit, a money stringency was occasion for considerable alarm, usually precipitating a break in the security markets.



**Strong**

An expression to denote that market prices have a rising tendency. A market, or a single security or commodity, is said to be strong when there is a price advance.

**Stub**

In general, a counterfoil or part of a bound set of printed, blank forms, *e. g.*, checks, stock certificates, receipts and the like, the latter being detachable from the stub by tearing at the perforation. The stub is a memorandum containing essentially the same information as the form which is detached, and is retained as a part of the permanent records of a business.

For check stubs see *Check Book*.

**Sub-Company**

See Subsidiary Company.

**Subject to Call**

See Called Bonds, Optional Bonds.

**Subject to Check**

A term used in conjunction with that type of bank account or deposits which the depositor retains the right to withdraw immediately and without notice to the bank, by means of check. All commercial bank accounts are subject to check, *i. e.*, payable on demand. Practically all the deposits of a commercial bank are demand deposits, *i. e.*, subject to check. (See Demand Deposits.)

**Subject to Prior Sale**

See Prior Sale.

**Subject to Redemption**

See Called Bonds.

**Subject to Sale**

See Prior Sale.

**Subrogated Note**

See Subrogation.

**Subrogation**

The substitution of another person in the place of the creditor. The person so substituted succeeds to all the rights of the original creditor, all debts owing to the creditor becoming payable to the substituted person. A subrogated note is one in which the person to whom it is payable has substituted another person as successor to his rights therein.

**Subscriber**

One who subscribes for a certain number of shares of stock, or a certain amount (par value) of bonds, either by entering his name on a subscription list (blank), or by some other agreement to purchase. (See Subscription.)

**Subscription**

An offer to purchase stocks or bonds given to a corporation, or its authorized trustee or representative, by a subscriber. A subscription is not binding upon a subscriber until accepted. It is merely an offer to purchase and can be revoked by the subscriber until accepted. An acceptance of a subscription is subject to allotment. This provision protects the corporation against suit in case of over-subscription, which necessitates a pro rata reduction of subscriptions for amounts in excess of a certain minimum. (See Prior Sale.)

**Subscription Blank**

A form sometimes printed at the end of a bond or stock circular, or accompanying such circular, on which a purchaser may enter his subscription. The terms regarding acceptance, allotment, prior sale, payment, and delivery are usually noted.

**Subscription Warrant**

An instrument entitling the stockholders of record to "rights," or subscription privileges; a certificate issued by a corporation specifying the amount of stock and terms and conditions under which each stockholder is entitled to subscribe to new shares which the corporation is about to issue. Subscription warrants are legal evidence of the ownership to subscription rights and are assignable. (See Rights.)

**Subsidiary Coinage**

Coins manufactured from metals other than the standard. In the United States, the subsidiary coinage consists of silver, nickel, and copper coins. (See Minor Coins, Subsidiary Silver Coins, Token Money.)

**Subsidiary Company**

A company, usually a corporation, controlled by another corporation through partial or complete stock ownership, interlocking directorates, lease, or otherwise. Many large corporations control a number of subsidiary companies. The advantage of such control is to secure greater integration,

*c. g.*, a continued source of supply of raw material, or market outlet for the finished product. Thus, many automobile manufacturers and oil refineries establish subsidiary distributing agencies; many steel corporations own subsidiary ore and coal properties. "The use of subsidiary corporations is becoming more and more extensive. A certain manufacturing company, for instance, has one operating company, one selling company, one purchasing company, one company owning a short railroad, one real estate company to buy land and erect buildings and another to operate these buildings."\*

(See Holding Company, Operating Company, Parent Company.)

**Subsidiary Silver Coins**

The 50 cent, 25 cent, and 10 cent pieces. These coins contain only 347.22 grains of pure silver to the dollar, while the dollar itself contains 371.25 grains of pure silver. These coins are legal tender in any one payment up to \$10 and are redeemable at the United States Treasury in lawful money when presented in amounts of \$20, or multiples thereof. They are a form of *Token Money* (q. v.).

**Subsidy**

Government financial assistance given to important public enterprises—railroads, steamships, airplane manufacturers, operating under private management, in order to encourage such industries which otherwise would be undeveloped or inadequately developed.

**Substitutions**

See Substitutions in Collateral.

**Substitutions in Collateral**

The relinquishment of certain collateral pledged to secure a loan and deposit of other collateral of equivalent value in its stead. Substitutions are an essential part of the machinery of handling brokers' loans. They are also necessary wherever short-term paper is pledged as collateral against long-term notes, in rediscounted notes securing *Federal Reserve Notes* (q. v.), and in the collateral supporting *Collateral Trust Bonds* (q. v.).

Call loans and brokers' time loans are always secured by stock exchange collateral, *i. e.*, stocks and bonds which are constantly being traded in. A broker obtains a loan from a bank by pledging this collateral,

which has been purchased for the accounts of customers operating on margins. While these securities are owned by the brokers' customers, they are held by the brokers as security against the debit balances which they advance. Suppose a broker's customer orders the sale of some of the stock which the broker has rehypothecated with a bank. In order to make delivery the broker must obtain physical possession of these shares previously pledged to secure his bank loan. It is therefore necessary to procure them at the bank where they are deposited as collateral. In the meantime, however, the broker has purchased stock for other accounts, and these he can offer in exchange for the stocks that have been sold but are deposited at the bank. Accordingly, a messenger is sent to the broker's bank with the securities to be substituted and with a request phrased as follows:

SUBSTITUTION REQUEST

.....19.....  
Please deliver the following securities  
from our loan number....., dated

.....

We hand you in exchange:

.....  
.....

(Signature)

Substitution forms are signed by a member of the brokerage house who is authorized to sign, or by an authorized attorney.

Substitution clerks who examine collateral substituted for collateral to be released observe the following points: (1) that the signature on the substitution request is authorized and genuine; (2) that the character of the substituted collateral is acceptable, *i. e.*, approximately equivalent to the character of the collateral being released; (3) that the new collateral is negotiable; and (4) that the market value of the substituted collateral is approximately equal to the value of the collateral to be released.

Since rediscounted commercial paper of not more than 3 months duration (6 months for agricultural paper) forms the major portion of the collateral supporting Federal Reserve notes, it is necessary that the constant stream of maturing notes be released from the custody of the Federal Reserve agent at each Federal Reserve bank (who has charge of this collateral and whose duty it is to supervise substitutions), and that newly rediscounted paper be substituted.

\* W. H. Lough: *Business Finance*, p. 52.

Substitution of collateral in real estate mortgage bonds or in collateral trust bonds should be permitted only on previously agreed upon terms, and care should be taken that the character and value of the new collateral is as good as the released collateral.

### Sub-Treasury

One of the branch offices of the United States Treasury performing Government fiscal operations of the same character as the United States Treasury, and under the supervision of assistant treasurers. By an act of Congress, dated May 29, 1920, the operation of the sub-treasuries as a part of the fiscal system were required to terminate on June 30, 1921. Sub-treasuries were located in New York City, Baltimore, Boston, Chicago, Cincinnati, New Orleans, Philadelphia, St. Louis and San Francisco. By the act above referred to, these nine sub-treasuries have been closed and their functions taken over by the various Federal Reserve banks, which carry on the fiscal operations in the same manner as previously. The operations of the New York sub-treasury ceased December 6, 1920; Boston, Oct. 25, 1920; Chicago, Nov. 3, 1920, and Cincinnati, Feb. 10, 1921. (See United States Treasury.)

### Sucre

See Foreign Moneys—Ecuador.

### Sugar

See New York Coffee and Sugar Exchange.

### Sugar Exchange

See New York Coffee and Sugar Exchange.

### Superintendent of Banks

See State Banking Department.

### Support

A term to denote the purchase of a single security, or a group of securities by a syndicate, pool, individual speculators, or other special interests, to prevent further decline. Support is furnished to give a security, or the entire market, an appearance of strength for the purpose of arresting a downward movement and inspiring confidence, rather than with the intention of making immediate profits. (See Banking Support.)

### Supporting Orders

Buying orders lodged with brokers for the purpose of furnishing *Support* (q. v.).

### Surety

This term has two applications:

(1) A guarantor; a person or company which agrees to answer for the debt or performance of another in case of default.

(2) Suretyship; a guaranty or security for protecting a person against loss in case of default in the payment of a debt, or performance of a contract; an instrument or undertaking, ordinarily called a surety bond, given as evidence of the guaranty by which the surety becomes bound as the principal or original debtor is bound. (See Surety Company.)

### Surety Company

A company which guarantees the acts of others, *i. e.*, acts as surety for a valuable consideration. One of the principal types of guaranties undertaken by a surety company is the insurance of the faithful conduct of employees handling money or valuable papers guaranteeing any losses which may result from dishonesty. This is known as fidelity insurance. A surety company undertaking this class of risk, keeps in touch with the history of employees and refuses to insure those who have police records. They attempt to secure conviction of defaulters, and by refusing to renew a surety bond when the insured has been guilty of misconduct, these companies tend to reduce dishonesty, defalcation, and embezzlement.

### Suretyship

See Surety.

### Surplus

This term may apply to (1) the proportion of profits of a business for the current accounting period in excess of all costs, expenses, interest charges and dividend payments, *i. e.*, amount available for carrying forward into the next accounting period, *i. e.*, net profit, or, (2) the accumulated or undivided profits of past periods left invested in the business, *i. e.*, the gross or total surplus. The first application, however, is not strict accounting terminology. The term surplus should not be used synonymously with net profits, but rather should designate undivided profits of a corporation; profits which have not been distributed in dividends to stockholders. The surplus, which in some cases exceeds capital stock, must be added to the latter, together with any true reserves, in order to determine net worth. (See Capital and Surplus.)



### Surplus Reserve

The amount of a bank's reserve (held in a Federal Reserve bank in the case of a member bank, and in its own vault or legal depositories if a non-member bank) in excess of the legal reserve requirement. The term also applies to the surplus reserves of all the banks in a given clearing house association.

### Surrender Value

A term used in connection with insurance policies to denote the cash sum which the insurance company agrees to pay the holder who exercises the option of surrender. The surrender value increases in proportion to the number of premiums paid and growth of the policy reserve. The loan and surrender value of a policy are usually coincident.

### Surrogate Court

The name given in some states to the court having jurisdiction over wills, executors, administrators, and other fiduciaries, decedent estates, the devise of real property, and the like. It is known in other states as Probate Court, or Orphan's Court. (See Probate.)

### Suspension

This term has three meanings:

(1) The termination of a business due to insolvency or bankruptcy.

(2) The temporary closing of a bank which, though in a solvent condition, desires to liquidate a part of its assets in order to be in shape to meet the demands of its creditors.

(3) Members of a stock exchange may be suspended, *i. e.*, prohibited from exercising their rights as members for a stated period (as distinguished from expulsion) for violating certain rules of the exchange. On the New York Stock Exchange, members may be suspended, not only for specific violations of rules, but for certain acts not expressly defined. The rules of the New York Stock Exchange provide for suspension in the following cases: (1) "Conduct or proceeding inconsistent with just and equitable principles of trade;" (2) where failure "has been caused by recklessness or unbusinesslike dealings;" and (3) whenever a member has been "adjudged guilty of any act which may be determined by said (governing) committee to be detrimental to the interest or welfare of the exchange."

### Suspension of Specie Payments

See Specie Payments.

### Sweating

A term applied to a method of reducing the weight of coins by rubbing them together in a box or bag for the purpose of obtaining gold or silver dust resulting from the friction.

### Sweetening a Loan

A Wall Street expression meaning to place additional securities on deposit to margin a loan after security values have declined, in order to keep the margin intact, or to strengthen the margin. (See Margin Call.)

### Swindling

A term to denote the selling of doubtful or worthless securities through misrepresentation. It may be accomplished through advertisements that offer securities of high yield, or promise exorbitant profits, or circulars distributed gratis written deceptively and with an ulterior purpose, rather than giving bona fide disinterested analyses.

Another form of swindling consists in exchanging low grade securities of doubtful or no value, for high grade securities of unquestionable merit. (See Blue Sky Laws, Bunco, False Statement Acts.)

### Swings

A term used to denote the periodic movements upward and downward in (1) business activity, (2) commodity prices, (3) security prices, or (4) money rates. C. H. Dow in his book entitled "Theory of Stock Speculation," classifies swings as primary, secondary, and tertiary. Primary swings are broad movements lasting over a period of years, and may be identified with the business cycle, *i. e.*, a primary upward and downward swing constitutes a complete cycle. Primary swings are caused by rhythmic changes in fundamental economic conditions. Secondary swings are the short-term movements covering a number of weeks or a few months, and have their causation in current trade reports, etc. Tertiary swings are the imponderable fluctuations that occur daily and even hourly in the various markets, and have their causation in such factors, as market sentiment, technical position, speculative psychology, etc.

It is on the theory of primary swings that most statistical organizations and forecasting services base their ability to predict future trends. Few persons, other than pro-

fessional speculators who are well versed in trade conditions and market technique, can uniformly succeed in forecasting secondary swings. Tertiary swings are practically unamenable to forecast. (See Business Cycle, Business Forecasting Services, Speculative Cycle.)

### Switch

See Switching.

### Switching

This term has two meanings:

(1) When a speculator in grain, cotton, or sugar futures transfers his contract to mature in some future month, the process is called switching.

(2) The process of transferring one's interest to another security, *i. e.*, liquidating one's holdings in one security for the purpose of placing proceeds in another because the prospects of which appear to be more attractive, to increase one's income, or to strengthen one's position.

### Syndicate

A group of banks, investment houses, or securities corporations which organize to underwrite an issue of bonds, notes, or stock from a corporation or governmentality; a group of security underwriters as distinguished from a single underwriter. The term syndicate is sometimes used synonymously with *pool* or *clique*, but differs from them in that the former usually purchases new capital issues direct from the issuing organization while the latter conduct operations in securities already marketed.

The function of a syndicate is to furnish new or additional capital through the purchase at wholesale of the capital issues of the organization requiring to be financed, and the sale of these securities to the investing public through participating members. The term may therefore apply to the original syndicate which buys the securities, known as the "underlying syndicate" or syndicate on original terms, or to the investment houses, stock exchange houses, and banks which distribute them to the public, known as the "distributing syndicate."

When bonds or stocks are issued by a corporation or Government, it can choose one of two ways of marketing them. They can be sold "over the counter," *i. e.*, the issuing organization can find its own market, or they may be sold directly on a wholesale basis to an underwriting organization. On account of the specialized marketing facilities of the large investment banks, the latter method is

usually chosen. Some one investment bank may act as the sole underwriter, or else an underwriting syndicate may be formed consisting of a group of investment banks. The latter practice is customary because it permits a distribution of risk among the members of the underlying syndicate, and enables the participating members (of the distributing syndicate) to offer a well diversified list of securities to their customers.

Each member of the underlying syndicate contributes a certain part of the required capital, and becomes obligated to dispose of an agreed upon part of the issue. The active management of the syndicate rests with one of the investment banks, known as the "syndicate managers," whose duty it is to see that the terms of the syndicate agreement are carried out, to handle the accounts, to prepare the advertising, and to take initial custody of the securities.

The securities purchased by the underlying syndicate are sold to the public through enlisting the services of banks, brokerage and investment houses throughout the country with whom the members of the underlying syndicate have affiliations. Members of the underlying syndicate are primarily wholesalers, while members of the distributing syndicate are retailers.

The following example will serve to illustrate the typical method employed in syndicate organizations. Suppose that a corporation wishes to float a \$50,000,000 bond issue, and that the underlying syndicate agrees to purchase the entire block at 95, remitting to the corporation within the agreed time the proceeds, or \$47,500,000. The underlying syndicate will then organize a distributing syndicate, consisting of banks, brokers, investment houses, and other financial institutions throughout the country, who are invited to enter the distributing syndicate as participating members by agreeing to purchase a block, say at the price of 98, or three points advance over the cost to the underlying syndicate. Members of the underlying syndicate will also have the privilege of subscribing to the bonds at the price they are offered to the public, less a selling commission of say 2 per cent. At the same time the syndicate managers will advertise the terms of sale of these bonds to the public, say at par and accrued interest.

The underlying syndicate members usually apportion or allot the entire issue, except such amounts as they subscribe for themselves (to be sold to their own customers), among the various participants in the distributing syndicate in proportion to their financial and sales ability to absorb them as

determined by past experience. The participating members' profits consist of the difference between the public offering price and the price at which they are purchased from the underlying syndicate, and they become bound to pay for the amount of their allotment regardless of whether they are sold or not within the syndicate period. Oftentimes, however, the syndicate period is extended if selling conditions are difficult. The underlying syndicate's profit consists of the difference between the purchase price and that at which they are sold to the participating members. In the above example, the profit (assuming the bonds are entirely sold) would be \$8,000,000, less the expenses of the syndicate and the syndicate managers' commission. Each member of the underlying syndicate shares in the profits or losses in accordance with the ratio that its participation bears to the total amount of the issue. If the underlying syndicate is not successful in selling all the bonds to the members of the distributing syndicate or through its own distributing channels, then the unsold portion will be allocated to the members of the underlying syndicate pro rata with their participation at the price of 98.

Some syndicate agreements contain a so-called "selling-out clause," which provides that to the extent that an underlying syndicate member subscribes for bonds, its liability to the syndicate is decreased. Thus, if a member subscribed for bonds to the amount of this participation, it is relieved from liability of having to take up any of the unsold bonds. (See Underwriting.)

### **Syndicate Agreement**

See Syndicate.

### **Syndicate Loans**

Loans made by a bank to an underwriting syndicate to aid in the purchase of securities from an issuing organization. State banks and trust companies in New York state may not lend to underwriting syndicates if (1) there has not been 25 per cent. of the amount of the issue paid in by the syndicate, (2) the terms of the proposed loan or any renewal thereof exceed one year, (3) the amount exceeds 25 per cent. of the lending institution's capital and surplus, or (4) the lending institution is a member of the syndicate. (See Syndicate.)

### **Syndicate Managers**

See Syndicate.

### **Syndicate Members**

See Syndicate.

### **Syndicate Offerings**

Securities offered for sale by an investment house which have been received as an allotment from an underlying syndicate; investment offerings of a syndicate. (See Syndicate.)

### **Syndicate on Original Terms**

See Syndicate.



## T

### Tael

See Foreign Moneys—China.

### Take a Flier

See Flier.

### Take Up

This term has two meanings:

(1) A brokerage term to denote the act of paying upon delivery for the purchase of, or subscription for, bonds or stocks; payment made in order to get possession of securities previously contracted for.

(2) To retire or pay off, as a note, acceptance, or bond.

### Talari

An Abyssinian money. (See Foreign Moneys—table 2.)

### Tale

Some contracts involving the payment of metallic money call for payment "by tale," meaning by count, as distinguished from weight. If payment is to be made in gold coin, for instance, the total sum "by tale" would disregard abrasion, whereas the sum by weight would denote actual value. A given sum computed "by tale" would give a smaller value than if computed by weight.

### Tallero

A money of Eritrea. (See Foreign Moneys.)

### Talon

A term used in England, France and Germany, to indicate the last portion of bond, certificate, or rente, remaining after the coupons have been detached. Sometimes it takes the form of a special coupon. When the talon is presented to the proper office of the Government, the holder is entitled to receive a new certificate or rente with its full quota of coupons for the next period. French rentes are usually issued with coupons attached for 5 or 10 year periods. (See Rentes.)

### Tangible Assets

Physical or material assets, *e. g.*, real estate, buildings, machinery, inventories, and

cash, as distinguished from intangible assets, *e. g.*, good will, patents, trademarks, and the like.

### Tape

A narrow ribbon of paper used in quotation tickers on which prices transmitted by telegraph from market headquarters are printed by an electrically operated instrument. (See Quotation Ticker, Ticker.)

### Tape Abbreviations

See New York Stock Exchange Abbreviations, Ticker Abbreviations.

### Tape Prices

Prices as indicated on the ticker tape. These are usually from one to ten minutes behind the actual transactions. (See Quotation Ticker, Ticker.)

### Tare

Unproductive weight; weight of the container, package, crate, or vehicle in which goods are loaded for shipment or carriage, as distinguished from the gross weight and net weight. Thus, in a barrel of oil which weighs 400 lbs., the barrel 40 lbs. and the oil 360 lbs., 400 lbs. represents the gross weight, 360 lbs. the net weight, and 40 lbs. the tare.

### Tax Arrearage Bonds

See Revenue Bonds.

### Taxes

#### (1) *On Circulating Notes*

National banks and Federal Reserve banks are required to pay taxes respectively, on National bank notes and Federal Reserve bank notes outstanding, at the rate of  $\frac{1}{2}$  per cent. annually, if secured by 2 per cent. Government bonds, or 1 per cent. if secured by 3 per cent. or 4 per cent. Government bonds. State banks are effectively prohibited from issuing circulating notes by a provision in the National Bank Act which taxes these notes at 10 per cent.

#### (2) *On Deficient Reserves*

The Federal Reserve Act, section 11 (c), authorizes the Federal Reserve Board to suspend, not exceeding 30 days, the reserve

requirements of the Federal Reserve banks, provided the Federal Reserve Board "establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified; And, provided further, that when the gold reserve held against Federal Reserve notes falls below 40 per centum, the Federal Reserve Board shall establish a graduated tax of not more than 1 per centum per annum upon such deficiency until the reserves fall to 32½ per centum and when said reserve falls below 32½ per centum a tax at the rate increasingly of not less than 1½ per centum per annum upon each 2½ per centum or fraction thereof that such reserve fall below 32½ per centum. The tax shall be paid by the Reserve bank, but the Reserve bank shall add an amount equal to such tax to the rates of interest and discount fixed by the Federal Reserve Board.

(3) *On Deposits*

Interest on bank deposits is subject to Federal income taxes, both normal and surtax. Such interest is also taxable under the New York state income tax law.

(4) *On Foreign Bills of Exchange*

See *Stamp Tax*.

(5) *On Income*

See *Income Tax*.

(6) *On Investments*

See *Taxes on Investments*.

(7) *On Stock Transfers*

See *Stock Transfer Tax*.

(8) *On Time Evidences of Debt*

During the World War, the Government placed a direct stamp tax upon time evidences of debt, as an important source of revenue. The instruments which required a stamp tax were time drafts and bills of exchange, notes, acceptances, and bonds, at the rate of 2½ cents for every \$100 or fraction thereof.

## Taxes on Investments

Taxes on securities in the United States may be levied as direct personal property taxes, or as income taxes. The personal property tax is imposed upon the principal of the security—the method employed in state and local taxation. The income tax is imposed upon the return from such security—the method employed by the Federal Government income tax, and by those states which have enacted income tax laws.

Taxes on bonds, notes, stocks, and mortgages as imposed by the various states have no uniformity, and there is no mathematical formula that can be applied to measure their effect. The existing laws in the several

states, and their effect upon bond values, and interest rates, can be ascertained by consulting any reliable investment house. (See *Tax-Exempt Bonds*.)

## Taxes on Stock Transfers

See *Stock Transfers*.

## Tax-Exempt Bonds

The following bonds are free from all Federal income taxes: (1) all United States Government bonds issued before September 1, 1917, *i. e.*, all pre-war issues, and the 1st Liberty 3½s; (2) bonds of any state or territory; (3) bonds of any insular possession; (4) bonds of any municipality, district, or political subdivision of a state; (5) Federal Land bank bonds; and (6) joint-stock land bank bonds. Other issues of *Liberty Bonds* (*q. v.*), are partially exempt. Dividends on stocks are exempt from the normal tax, but not from the surtax.

The following bonds are exempt from state taxes: (1) all United States Government bonds; (2) bonds of an insular possession; (3) Federal Land bank bonds; (4) joint-stock land bank bonds; (5) state bonds (in most states); (6) municipal bonds of states in which municipality is located (in most states); real estate mortgages and certificates (in a few states, *e. g.*, New York).

Generally speaking, this would leave bonds of all private corporations, whether railroad, public utility, or industrial, and whether domestic or foreign; and all foreign Government bonds subject to taxation. (See *Taxes on Investments*.)

## Tax-Free Bonds

Same as *Tax-Exempt Bonds* (*q. v.*).

## Tax-Free Covenant

The Federal income tax law of 1913 contained a provision which required the normal tax on bonds which were subject to tax to be withheld at the source, and also required that ownership certificates accompany all coupons detached from corporation bonds at the time of their presentation. This proved an annoyance to investors and hurt the sale of corporation bonds. Accordingly, issuers of corporate obligations, floated their bonds with "tax-free covenants," whereby the obligor (issuer) agreed to pay any income which the law required the corporation to withhold from the interest paid to the bond owners. The present revenue law allows the normal tax to the extent of only 2 per cent. to be paid at the source under the tax-free covenant principle.

Fundamentally the purpose of the tax-free covenant is to shift the burden of the tax on this class of securities to the issuer.

### Tax Relief Bonds

Same as *Revenue Bonds* (q. v.).

### Technical Position

A term used among stock speculators to indicate the situation, circumstances, set of conditions, influences, or forces operating within the market itself, as distinguished from purely external or extrinsic factors which favor a price movement upward or downward. From the standpoint of the bulls, the technical position is said to be good when the forces or influences in the market are favorable to an advance in prices, and bad when favorable to a decline. It is well known in speculative circles that successful speculation depends upon a knowledge of the technical position of the market, as well as the outside influences or *Fundamental Conditions* (q. v.), *e. g.*, political events, trade reports, earnings' statements, money rates and general business conditions. The chief elements affecting the technical position are: (1) whether the market is overbought or oversold; (2) the extent of the short interest; (3) whether stocks are widely distributed, or centered in the hands of a few; (4) the extent of public participation; (5) activity; (6) the attitude of big operators; (7) the quantity of stop loss orders present above or below the current level of quotations; (8) the sensitiveness of speculators to bad news; (9) the extent to which the market has advanced or declined without reaction or rally; (10) the extent to which pyramiding is evident; and (11) whether margins are thin or heavy.

The big operators take advantage of their knowledge of the technical position to force prices in one direction or the other.

### Telegraphic Transfers

The transfer of money to a distant point for immediate use through the agency of a telegraph or cable company. A charge is made both for the transfer and telegram. The remitter may waive identification of the payee to the company's cashier at the distant office. (See *Cable Transfer*, *Money Transfer*.)

### Teller

A general term applied to a bank employee who in one capacity or another transacts business with customers "over the win-

dow." The paying and receiving tellers are the most familiar examples. In large banks there are also, the mail teller, note teller, collection teller, coupon teller, etc. (See *Collection Teller*, *Coupon Teller*, *Paying Teller*, *Note Teller*, *Receiving Teller*.)

### Temporary Bonds

Bonds issued as temporary substitutes for permanent or definitive bonds, and which differ from temporary receipts in that they contain the same complete recitals that appear on the permanent forms, and are not merely acknowledgments of payment and promises to deliver. The term also denotes bonds or certificates issued for temporary financing purposes; thus, receivers' certificates are temporary certificates.

### Temporary Certificates

See *Temporary Bonds*.

### Temporary Receipts

Corporations floating a new bond, note, or stock issue, frequently desire to obtain possession of the new funds as soon as possible and before permanent, engraved forms can be prepared for delivery. To provide for this contingency, temporary, printed, or lithographed receipts are issued to purchasers upon payment. These receipts are acknowledgments of payment and promises to deliver permanent or definite bonds (or stocks). They are held by the purchasers until the issuing corporation announces that definitive forms are ready for substitution upon surrender of the temporary receipts.

### Tender

This term has two meanings:

- (1) Same as *Bid*. (See *Bid Price*.)
- (2) See *Legal Tender*.

### Tenor

The term or duration of a note, acceptance, time draft, or bond, *i. e.*, the interval between the date of issue (acceptance in case of a draft), and the maturity date. This term is synonymous with *usance*.

### Ten Per Cent. Rule

This term has two meanings:

- (1) See *Twenty Per Cent. Rule*.
- (2) A term which refers to the provision in the National bank laws, which prohibit a National bank from lending, except under certain conditions, more than 10 per cent. of its capital and surplus to one person, firm,



or corporation. (See Limitations on Bank Loans.)

### Ten Point Margin

Margin, *i. e.*, a partial payment, equal to \$10 a share for each share purchased. The partial payment of \$1,000 on the purchase of 100 shares, whether the price per share is \$25 or \$90, is a ten point margin. A ten point margin is usually the smallest margin which a broker will accept for medium priced stocks. (See Margin Buying.)

### Term

The period or duration of a note, acceptance, time draft, bill of exchange, or bond; synonymous with tenor and usance. (See Tenor.)

### Terminable Annuity

See Annuity.

### Terminable Bonds

Bonds which have a fixed compulsory maturity, as distinguished from indeterminate or perpetual bonds. (See Indeterminate Bonds, Perpetual Bonds.)

### Terminal Bonds

Bonds which are obligations of a terminal company, which in turn may be owned by, or the property of which may be leased to, one railroad or a number of railroads jointly, usually the latter. Proper terminal facilities are of utmost importance to railroads, and upon these facilities depend the volume, dispatch and cost with which traffic is handled. Terminal costs are usually large and many railroads co-operate in the use of terminal facilities, as evidenced by the frequency of union stations and joint freight terminals. The formation of a terminal company, the property of which (yards, buildings, tracks, etc.) can be mortgaged to secure additional capital, accounts for the origin of this class of bonds.

The revenue accruing to a terminal company is derived from charges to the railroad companies using the facilities, apportioned on the basis of traffic.

Terminal bonds are frequently guaranteed by the railroads sharing the company's facilities. When terminal bonds are secured by valuable property located at important railroad centres, or shipping points, with earnings in excess of interest charges, or are guaranteed by railroads of high credit standing, they constitute a high grade investment.

### Terminal Company Bonds

See Terminal Bonds.

### Territorial Bonds

See Insular Bonds.

### Testament

A term in former use now largely supplanted by the term *Will* (q. v.).

### Testator

One who makes a *Will* (q. v.).

### Test Number

In order to insure the authenticity of cable transfers, banks and foreign exchange, dealers prefix or append a code number or word to the message as a proof of its validity. This test number usually changes with each message, and since the formula for computing or decoding a test number is kept under lock and key and subject only to official supervision, it authenticates a message just as an officer's signature validates a bank draft. An example of a typical test word formula is: "Add together the day of the month upon which the message is sent, the number corresponding to the day of the week (accompanying table), and the month (same table), and the numbers for the amount in thousands, hundreds and units (same table). Then add your private number which is ———."

In order to further safeguard the private number, it is usually fixed after the formula has been made, or it may be cabled separately. Although the above mentioned formula numbers are permanent, or are changed at infrequent intervals, the test number usually varies with each cable. It is more difficult to solve a test number without the formula than to forge a signature.\*

### Test Word

See Test Number.

### Thaler

A German money. (See Foreign Moneys—Germany.)

### Thin Margin

A small margin; a "shoestring" margin; a margin which gives the owner only a small equity in his purchase.

A narrow or insufficient margin which leaves the speculator's account in an exposed

\* Adapted from O. H. Wolfe: Practical Banking.

and precarious condition in case of a declining market. (See Margin Buying.)

### Third Mortgage

First read *Mortgage*, and *Second Mortgage*.

A mortgage placed upon property which is already encumbered with a first and second mortgage. For instance, a piece of real estate appraised at \$50,000 may be encumbered with a first mortgage of \$20,000 and a second mortgage of \$10,000. If the owner wishes to raise an additional \$5,000 by using the property as security, a third mortgage will be created, making a total mortgage indebtedness of \$35,000. In case of foreclosure, a third mortgage would not be paid until both the first and second mortgages have been fully satisfied.

In practice, third mortgages are rare, since it is difficult to find a lender on this class of security, although where the sum of the first and second mortgages constitutes a debt of less than one-half of the appraised value of the property, there is nothing intrinsically unsound in lending a small amount on a third mortgage. To avoid the stigma of borrowing on a third mortgage, the property owner in the above example would likely, if he desired to raise additional money, pay off the first and second mortgage loans and issue a single first mortgage for \$35,000.

### Third Mortgage Bonds

First read *Third Mortgage*.

Bonds secured by a mortgage upon property already encumbered with an issue of first or second mortgage bonds. Such bonds represent a third lien upon the assets and earnings of the issuing corporation. Third mortgage bonds are rare, but among certain railroads, general or consolidated mortgage issues, part of the property falling under such general or consolidated mortgages is oftentimes already encumbered with a first and second mortgage.

### Third of Exchange

See First of Exchange.

### Third Preferred Stock

See Preferred Stock.

### Third Teller

Another name for *Mail Teller* (q. v.).

### Threadneedle Street

The street in London in which several banking institutions, including the Bank of

England, are located, and by extension, one of the popular names for the London banking district. Lombard Street is another street in London around which financial activities are centered, and is a more popular designation for the financial district than Threadneedle Street. It corresponds to our use of Wall Street as a popular designation for financial New York. (See Lombard Street.)

### Three-Name Paper

Notes, bills of exchange, bank and trade acceptances—usually some form of commercial paper—with three signatures, (either as makers or indorsers) responsible for payment, and representing separate interests, *e. g.*, a note signed by two makers and having one indorsement, or an acceptance with the name of the drawer, acceptor and one indorser. (See Single-Name Paper.)

### Thrift Department

A name sometimes given to what in reality is a savings department operated in connection with state banks and trust companies in those states, *e. g.*, New York, where the banking laws prohibit the use of the term "savings" when advertising or soliciting such accounts. State banks and trust companies, as well as National banks, may accept time deposits and since savings deposits are a type of time deposits, there is nothing to prevent these banks from soliciting time deposit accounts, if the use of the term "savings" is avoided. The purpose of this law, where enacted, is to restrict the use of the term "savings" to savings banks exclusively. To comply with the law, therefore, accounts for this department are solicited under the name of "thrift" accounts, "special interest" accounts, "compound interest" accounts, or "time deposit" accounts. (See Savings Accounts.)

### Thrift Society

A term usually applied to an association of employees in a business institution for the purpose of promoting habits of thrift among them by receiving savings from its members and investing them more profitably than would be possible in a savings bank. Frequently the company supervises the investment of the thrift fund and guarantees payment of the principal and interest at a certain rate.

### Tical

A money of Siam. (See Foreign Moneys.)

## Ticker

The popular name given to an electrical typewriter, introduced in 1867 for the purpose of transmitting market quotations, and operated from the board room of a stock or other exchange. Quotations are printed on a narrow ribbon of paper known as tape, and are transmitted by telegraph to instruments rented to subscribers throughout the entire United States.

The New York Stock Exchange maintains two ticker services, one for stocks and one for bonds. The stock ticker is operated by an electrical collator which is so constructed that it automatically receives and distributes the quotations from the four sending operators located on the floor or board room of the exchange. The floor operators sit at typewriter keyboards and receive slips containing records of transactions—giving number of shares and prices—from forty floor runners. Actually no typing is done, the record appearing in the form of perforations on a tape, which is fed from the machine to an electrical transmitter. It is this perforated tape passing through the transmitter that telegraphs the quotations to the collator. The collator is a switching device which automatically receives from one operator and cuts out the others. When quotations from one operator are fed into the collator, the switch automatically cuts him out and begins to receive from another who has quotations to communicate. All four operators can thus work simultaneously and at full capacity although the line to the collator is open to only one at a time.

Ticker services are also maintained by the New York Curb Market Association, the New York Cotton Exchange, the Chicago Board of Trade, and the New York Consolidated Stock Exchange. There are also the Dow-Jones news service ticker, the New York News Bureau ticker, and a ticker for foreign exchange quotations. (See Quotation Ticker, Ticker Abbreviations.)

## Ticker Abbreviations

New York Stock Exchange ticker abbreviations may be explained as follows.

One price following the abbreviation of a stock signifies a sale of 100 shares. Thus, NP. 80 means the sale of 100 shares of Northern Pacific at 80.

When more than 100 shares are sold, the number of shares sold precedes the price. Thus, NP. 2.80½ means the sale of 200 shares of Northern Pacific at 80½. NP. 3.80¾.¼.½ means the sale of 300 shares of Northern Pacific at 80¾ followed by the

sale of 100 shares at 80¼, and another 100 shares at 80½.

An offer alone without a bid is preceded by an O. Thus, NP.0.79 means an offer of 79 for Northern Pacific.

A bid alone without an offer is followed by a B. Thus, NP.79½B. means a bid of 79½ for Northern Pacific.

When a sale is not reported in its right place, the price is preceded by the abbreviation SLD. Thus, NP. SLD. 80½ means that a sale of Northern Pacific has not been reported in the right place.

When an error has been made by a reporter, or in printing, the last letter or figure is repeated several times, indicating that the quotation is to be eliminated. Thus, NP. 80½½½½½ means that a sale of Northern Pacific is to be disregarded.

For abbreviations of the stocks on the New York Stock Exchange, see *New York Stock Exchange Abbreviations*.

## Ticket Day

See Settlement Days.

## Tickler

A maturity index.

A book in which the maturity dates of notes, discounts, acceptances, bonds, and sometimes dividends, interest payments, and the like are journalized, to serve as a future reminder to the bank or brokerage house that these instruments will need attention at some future date.

The most important tickler in a bank is that for showing the maturity of notes and acceptances. It is essential that a note be presented on the maturity date in order to hold the indorsers liable. The note maturity tickler, therefore, is indispensable in the management of a bank, whether large or small, in order to guarantee presentation of notes at maturity and thereby protect the bank from possible losses through the release of indorsers, should presentation be neglected.

The purpose of a note maturity tickler is to record all notes in such a way as to indicate the dates on which they mature. This is accomplished by journalizing (recording chronologically) notes by maturity dates at the time they are discounted or purchased. Consecutive pages in the tickler are devoted to consecutive maturity dates. By reference to the tickler, consecutive pages of which are headed with consecutive dates, it is possible to tell at a glance what notes are maturing on any given date and the amount of the total maturities for any given day.



Maturity ticklers are also maintained to indicate compulsory and optional maturity dates of bonds which a bank holds as its own investments. A form of note maturity tickler is given below:

**Time Bills**

See Draft, Foreign Bills of Exchange.

**Time Certificate of Deposit**

See Certificate of Deposit.

NOTE TICKLER

Date.....

MAKER	ENDORSER	WHERE PAYABLE	AMOUNT	RATE

**Tight Money**

When credit is difficult to obtain, although high grade collateral is offered, and high interest rates prevail, money is said to be tight. (See Stringency.)

**Till Money**

Money for use at the counter, as distinguished from that kept as reserve in the vault, or deposited with other banks. The paying-teller is usually exclusive custodian of the till money necessary for current ("over the window") use.

**Timber Bonds**

Bonds issued to finance logging and lumber-making operations. They are to be classed with industrial bonds, carry a high yield, and are secured by timber lands. The value of the timber property which is offered as security can be definitely calculated. The chief risk attending an investment in these bonds, however, is the fact that timber is ordinarily not insurable.

They offer a fair investment medium if they are secured by a mortgage on timber lands to which the owner has good title, and if the bonds call for the creation of a sinking fund to be accumulated in proportion as the timber is cut. Chicago is the principal market for these issues.

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**Time Clock**

See Time Lock.

**Time Deposits**

Deposits which are not subject to check, and which the bank may require 30 days notice of intention of withdrawal. The Federal Reserve Act (section 19) defines time deposits as comprising "all deposits payable after 30 days, all savings accounts and certificates of deposit which are subject to no less than thirty days' notice before payment, and all postal savings deposits."

As defined by the Federal Reserve Board (Regulation D, Series of 1920), the term 'time deposits, open accounts,' are held "to include all accounts not evidenced by certificates of deposit or savings pass books, in respect to which a written contract is entered into with the depositor at the time the deposit is made that neither the whole nor any part of such deposit may be withdrawn by check or otherwise, except on a given date or on written notice which must be given by the depositor a certain specified number of days in advance, in no case less than 30 days."

National banks wherever located are required to keep a reserve of 3 per cent. against time deposits.

According to the New York state banking law, time deposits are those the payment of which cannot legally be required within thirty days. (See Deposits.)

**Time Draft**

See Draft.

### Time Group

A term used among collection and transit clerks to indicate a group into which out-of-town checks are assembled to be forwarded for collection through the *Federal Reserve Check Collection System* (q. v.). The proceeds of out-of-town checks become available as reserve to the sending bank in a certain number of days indicated by the *Federal Reserve Schedule Showing When Proceeds of Items Will Become Available* (q. v.). This schedule divides out-of-town checks into a certain number of time groups, each Federal Reserve bank making its own schedule. For the New York Federal Reserve bank six time groups known as (1) immediate credit points; (2) one-day points; (3) two-day points; (4) four-day points; (5) five-day points; and (6) eight-day points are shown in the schedule. (See Transit Department.)

### Time Loan

A loan which becomes payable on a future specified date and which is not terminable at the option of either borrower or lender before that time. In practice, a bank will usually accept payment of a time loan before compulsory maturity with a pro rata abatement of interest or discount. (See Loans.)

### Time Lock

A mechanical contrivance for preventing the opening of the door of a vault, though the combination is worked, before the hour set for opening by adjusting the attached clock.

### Time Money

Money loaned for a definite period and payable on a specified future date, as distinguished from call or demand money.

### Time Paper

A general term including all forms of notes, acceptances, bills and drafts maturing on specified future dates.

### Time to Run

When a note evidencing a time loan is presented to a bank for discount, it must be timed, in order to ascertain the precise maturity date and the amount of the discount. A 90 day note dated April 1, may be presented for discount on April 15. While its term is 90 days, its time to run is the number of days elapsing between the date of discount and its maturity. In calculating the time to run, an exact count of the number

of days is taken, *e. g.*, in the above illustration the time to run is 75 days (discount is computed for 75 days) and the maturity date falls on June 29 (not June 30). If the maturity date should fall on Sunday, or a holiday, the note becomes payable, in most states, on the following business day. Accordingly another day, or days, may be added in computing the discount. In some states notes falling due on Sunday are collectible on the Saturday preceding. Reference must be made to the laws governing the collection of notes in the various states.

### Timing Notes

See Time to Run.

### Tip

An unsupported statement or advice given a person concerning the movement of a particular security, in supposed confidence and secrecy, but without revelation of the source of information, or facts to demonstrate its logic. Tips are given by legitimate bankers and brokers, and by "insiders" who have a knowledge of facts upon which to base their judgment, but who are not always in a position to disclose these facts. Such tips are honest. Tips are also given by unscrupulous brokers, professional tipsters and charlatans with the intention to misrepresent and deceive. Most tips are based upon guesswork, rumor, or pure fabrication. No tips should be acted upon without investigation, or at least without knowing the reputation of the informant. (See Copper a Tip.)

### Tipster

One who gives advice to buy or sell a certain security but without furnishing information why. One who gives advice to buy or sell a certain security, especially the professional charlatan who deals in questionable or highly speculative securities. Such advice is usually offered with an ulterior motive and should not be acted upon. Because of the operations of the professional tipster, a stigma has come to be attached to this term. (See Tip.)

### Title

The evidence of a person's right to or ownership in a piece of property. In the case of real estate, the documentary evidence of ownership is the title deed.

### Title Company

See Title Insurance Company.

### Title Deed

The documentary evidence of a person's ownership of a piece of land. Such a deed specified in whom the legal estate is vested and the history of the ownership and transfers from one person to another from the original grant to the present owner. Title to land may be acquired in one of five ways: (1) purchase; (2) inheritance; (3) devise; (4) gift; or (5) through foreclosure of a mortgage. (See Abstract of Title, Title Insurance.)

### Title Guaranty

See Title Insurance.

### Title Guaranty Company

See Title Insurance Company.

### Title Insurance

A contract by which the insured, usually a title insurance company, for a valuable consideration, agrees to indemnify the insured for a specific amount against any loss which may arise through the appearance of defects of title to real estate, wherein the latter has an interest as purchaser, mortgagee, or otherwise. Such a contract is recognized as a true insurance contract and is limited strictly to indemnity for loss actually sustained by reason of the defects or encumbrances against which the insurer covenants to indemnify. Title insurance involves a careful examination of the evidences of title by the insurer who employs, or is himself, a skilled conveyancer. (See Title Insurance Company.)

### Title Insurance Company

A company, usually operated in conjunction with a mortgage company, which examines titles to real estate, determines their status at law, and insures their validity to interested persons, whether owners, purchasers, or lenders, and whether the insuring company makes a loan on such property, or not. A purchaser of, or lender on, real estate (mortgagee), is entitled to an abstract of title and the seller (or borrower) must be able to transfer a clear title to the purchaser (or mortgagee). Ordinarily, abstracts of title are prepared, and the title verified, by a lawyer who states only an opinion and neither guarantees the validity of the title, or defends any claim that may be set up against it. A title insurance company, however, a large part of the personnel of which is composed of lawyers, agrees to indemnify the owner of a title against any loss which may

be sustained through the subsequent development of a defect. A title insurance policy is the evidence of the title insurance. Its cost depends upon the value of the property and the degree of risk involved, as shown by the condition of the title.

### To Arrive Grain

Grain to be shipped (not to arrive) from 3 to 90 days after purchase according to contract, as distinguished from cash grain, and grain for future delivery.

### To Bearer

See Pay to Bearer.

### Token Coins

See Token Money.

### Token Money

Fractional silver coins (50 cent, 25 cent and 10 cent pieces) and minor coins (5 cent and 1 cent pieces), which constitute the subsidiary coinage, as distinguished from standard money and paper money. The characteristics of token money are:

1. Issued in small denominations. Token money is primarily a tool for "making change."

2. Made of baser metal than the standard coin—of silver, nickel and copper. This is necessary because a coin of small denomination if made of gold would be too small for convenience in handling.

3. Shortness in weight. Token coins do not have the intrinsic value called for by their nominal value. They are worth more as coins or purchasing power than as metal or bullion. The purpose of this provision is to prevent token coins from being melted, thus insuring their permanence in circulation. It also prevents them from being hoarded or exported because they are worth more as coin than as metal. Fractional silver coins suffer a reduction in weight by about 6 per cent. of the bullion value of the silver dollar. To illustrate, a silver dollar contains 371.25 grains of pure silver. Fractional silver coins contain only 345.6 grains of pure silver for two halves, four quarters, or ten dimes.

4. Coinage on Government account only. It is evident that if coins are issued at a nominal value, which is about the cost of the metal contained in them, the issuer—the Government—makes a profit or seigniorage. This profit inures to the benefit of the Government and not to a private person. This is necessary because it is the duty of



the Government under certain restrictions to redeem these coins.

5. Limit in amount coined. Token coins are minted to the amount which experience shows is necessary for the purpose of trade. The purpose of this restriction is to insure token coins from falling below par. If token coins were minted without limit, they would soon assume the same coin value as metal.

6. Limited legal tender. The purpose of this provision is to prevent a debtor from making large payments in overvalued token money to a creditor. It is also intended to prevent token coins from displacing standard money and becoming itself a standard money. Fractional silver coins are legal tender up to \$10; minor coins are legal tender up to 25 cents.

7. Redeemability. It is necessary for the Government to redeem token coins in order to keep them on a par with standard money, and thus protect types of business which derive their income in large numbers of small coins, *e. g.*, street railway and telephone companies. Token money is redeemable in lawful money when presented to the United States Treasury, or a Federal Reserve bank in sums of \$20 or multiples thereof.

### Tolerance

Allowance made for the deviation of gold coins or silver dollars from the specifications as to weight and fineness prescribed by statute. Tolerance is of two kinds: (1) for variation, or percentage of error, allowed to the mint, also known as "remedy," or "remedy of the mint;" (2) for abrasion, or reduction in weight through circulation, allowed without impairing full legal tender value. The tolerance allowed the mint is for error in fineness and error in gross weight. The tolerance for error in fineness is 1/1000, *i. e.*, a coin may be .901 or .899 fine and still be legal. The "General Instructions and Regulations" of the United States Mint, however, state that no bullion should be coined that varies beyond the limits of .8997 and .9003.

The tolerance for error in gross weight on double eagles (\$20), and eagles (\$10), is one-half grain for individual pieces; on smaller denominations of gold coins, the tolerance on individual pieces is one-quarter grain; for silver dollar pieces, the tolerance is one and one-half grains. "In weighing a number of pieces together, the deviation from the standard weight shall not exceed one-hundredth of an ounce in five thousand dollars in double-eagles, eagles, half-eagles,

or quarter eagles . . ." (Revised Statutes, Sec. 3535).

For the tolerance allowed for abrasion through circulation see Light Coin, Light Gold.

### Toman

See Foreign Moneys—Persia.

### Ton-Mile

The unit of railway freight service, and of costs and revenue. This unit is represented by the carriage of one ton of freight one mile.

### To Order

See Pay to Order.

### Top

A term having reference to the conclusion of a period of rising prices on a stock or produce market, *i. e.*, when the highest prices for the upward movement have been attained. It is usually the point or plateau at which general optimism, as demonstrated by public participation in the market is shown, and when professional operators distribute, *i. e.*, unload their holdings. The top of a market is reached in a period of great prosperity, but before the turning point in commodity prices. (See Business Cycle.)

### Topheavy

A term to describe the condition of a single security, or the market, when prices have reached a level too high to be warranted by conditions, and which therefore may be expected to react; the condition of a market when prices have advanced rapidly and a decline is in prospect.

### Top Price

The highest price quoted for a stock or commodity, or the highest average price for the market as a whole, for a single day's trading, for a movement, or entire speculative cycle.

### Torrens System of Land Title Registration

The popular designation, Torrens System, is taken from the name of its founder, Sir Robert Torrens, who as land commissioner and registrar-general, established the system in Australia in 1858. Under this system an owner of land may apply for a certificate of title to be issued by the registrar of the county. This certificate is similar to a ledger

page as commonly used in bookkeeping accounts. The original certificate constitutes one page in the title book in the registrar's office, upon which all the facts with regard to the title of the particular piece of ground affected are entered, *i. e.*, description of the property, name of the owner in fee, and the mortgages and other liens or encumbrances standing against it. A duplicate of the original of this certificate or ledger page is given to the owner as his evidence of title.

The certificate of title gives to the owner a declaration or statement of his title which is indefeasible and incontestable. In order to ascertain the condition of a title it is necessary only to scrutinize this ledger page certificate and whatever may be noted there may be finally and absolutely accepted as the condition of the title. No mortgage, judgment, lien, dower claim, ancient right of heirs, or any other claim can be set up or claimed unless it is noted upon this certificate. By its policy of title insurance, a title company simply promises to defend a person's title in case of a lawsuit. The Torrens system, however, is calculated to prevent lawsuits, *i. e.*, the law provides that no claim can be set up against the title or enforced in a court, unless the claim is stated upon the certificate. This advantage is accomplished because of the fact that the first certificate issued is founded upon a final judgment of the court and back of every certificate is the sovereignty of the state declaring the title to be absolutely indefeasible and incontestable. After the first registration no searching is required and the title cannot be questioned.

The chief defects of the present system is that no purchaser of real estate can be certain of his title until he has employed an attorney to examine the title from the current date back to the original grant. This examination is expensive and must be repeated with each sale, because no prospective purchaser will be content to buy without being assured of the title.

The success of the plan in Australia caused it to spread rapidly to various English colonies. England adopted a law in 1862, and in 1897 it was made compulsory in London. In 1865, the system was established in Ireland. In Canada it is today practically universal.

In the United States registration laws have been established in 19 states as follows: California, 1897 (amended 1914); Colorado, 1903; Georgia, 1917; Illinois, 1897; Massachusetts, 1898; Minnesota, 1901; Mississippi, 1914; Nebraska, 1915; North Carolina, 1913; North Dakota, 1917; New York, 1908; Ohio, 1896 (constitution amended 1912);

Oregon, 1901; South Carolina, 1916; South Dakota, 1917; Tennessee, 1917; Utah, 1917; Virginia, 1916; Washington, 1907. The system was adopted by the United States Government for the Philippine Islands in 1902, and for Hawaii in 1903.

The certificate system of land registration has not met with universal success in every state, but where it has failed it is because incorrect principles have been followed. The Massachusetts law is one of the most successful and has served as a model for that of the Philippine Islands, Hawaii, New York, Minnesota, and a few other states.

### Traction Securities

Stocks and bonds of electric railway companies, whether surface, elevated, subway, or interurban railways, as distinguished from the securities of steam railroad companies. (See Street Railway Bonds.)

### Trade Acceptance

A bill of exchange drawn by the seller (drawer) on the purchaser of goods sold and accepted by such purchaser (drawee). As defined by the Federal Reserve Board (Regulation P, Series of 1915), "a bill of exchange drawn to order, having a definite maturity and payable in dollars in the United States the obligation to pay which has been accepted by an acknowledgment, written or stamped, and signed across the face of the instrument by the company, firm, corporation, or person upon whom it is drawn; such agreement to be to the effect that the acceptor will pay at maturity, according to its tenor, such draft or bill without qualifying conditions."

In order to certify that a trade acceptance is eligible for rediscount, it "must bear on its face or be accompanied by evidence in form satisfactory to the Federal Reserve bank that it was drawn by the seller of the goods on the purchaser of such goods. Such evidence may consist of a certificate on or accompanying the acceptance, to the following effect: THE OBLIGATION OF THE ACCEPTOR OF THIS BILL ARISES OUT OF THE PURCHASE OF GOODS FROM THE DRAWER. Such certificate may be accepted by the Federal Reserve bank as sufficient evidence; provided however, that the Federal Reserve bank, in its discretion, may inquire into the exact nature of the transaction underlying the acceptance."

Although widespread use of the trade acceptance has been made in Europe for many years, it has only partially supplanted the use of the check in this country. One of the designs of the Federal Reserve Act was to



encourage the use of the acceptance in the United States. The purpose of the American Acceptance Council is to maintain an intensive campaign to foster the trade acceptance in American business. The movement is also approved by the National Association of Credit Men which says: "Trade acceptances present conveniences and economies which should appeal to the encouragement and support of commercial credit grantors. The trade acceptance system would eliminate certain serious evils which have developed with the increase of commercial credits on an open account system, and of which unearned discounts, the abuse of sales terms, and the assignment of accounts receivable are the more prominent."

The procedure in trade acceptance practice is as follows. The seller of merchandise upon making shipment forwards with the shipping documents an acceptance form (in reality a time draft—see illustration). This form is often sent in duplicate to enable the buyer to retain a copy for his files. If the goods are subject to cash discount, the buyer may avail himself of this opportunity by remitting immediately; otherwise the buyer is expected to sign the acceptance form which consists of writing his name across the face of the instrument, indicating the date, and designating the bank where it is payable. In the great majority of cases, an acceptance is payable at the drawee's (acceptor's) bank. It may be made payable at any bank or trust company in the United States. It is then returned to the drawer (seller).

The negotiable instruments law now adopted in all the states provides that an instrument payable at a bank is equivalent to an order to the bank to pay for the account of the principal debtor thereof. For this reason when a trade acceptance is made payable at the acceptor's bank, it may be presented for payment and collected through the Federal Reserve check collection system in the same manner as a check.

There are many advantages accruing to both buyers and sellers in the use of the trade acceptance. The seller's advantages are as follows:

1. It completes the transaction by joining the evidence of the debt and means of payment with the shipment or invoice.

2. It compels definite payment at maturity. The seller has the buyer's negotiable guarantee that at a specified time and place the buyer will pay for the goods purchased from the seller.

3. It makes definite calculations possible,

since sellers know in advance at what times their sales will become available as cash.

4. It prevents tying up capital in open book accounts.

5. It provides additional credit facilities. Trade acceptances can be discounted at 100 per cent. of their face value, while accounts receivable cannot be discounted even under the most favorable conditions for more than 50 per cent. Furthermore, there is no limit to the amount of acceptance paper which a bank may take from one customer, since the 10 per cent. limitation (applying to National banks and state banks in many states) does not apply.

6. It reduces collection expenses and petty annoyances.

7. It avoids making the seller perform banking functions.

8. It tends to prevent the cancellation of orders and the return of goods.

9. It increases the liquidity of the seller's assets.

10. It permits a lower discount rate. Trade acceptances command a preferential rate of interest, since they afford double security to the lending bank. Recognition of the superior security in the trade acceptance is demonstrated by the fact that the Federal Reserve rate of rediscount for this class of paper is usually lower than for other commercial paper.

11. It promotes economy through the lower rate of discount, and through the reduction of the cost of extending credit, losses on bad accounts, etc.

Many of the advantages to the seller also accrue to the buyer. In addition, the buyer benefits in the following ways:

1. It strengthens his credit. In giving a trade acceptance the buyer proves his good faith by binding himself to pay an honest debt in full when it becomes due. He assumes no obligation until after the seller has surrendered title to the merchandise. In other words, it brings the transaction out into the open and places the buyer on a merit basis.

2. It tends to develop careful buying. The purchaser will not overbuy when he realizes that the debt must be met at a definite maturity.

3. Reduces expenses of handling open accounts.

4. Acceptance buyers are preferred by sellers.

The banker also benefits by the use of the trade acceptance in the following ways:

1. It tends to better the character of the bank's assets, since trade acceptances are



two-name paper and are readily rediscountable.

2. It promotes a keener sense of responsibility in business.

3. It increases the amount of discounting business to be done.

4. It increases the amount that can be loaned to one borrower.

5. It makes possible a fuller utilization of commercial credit.

6. It prevents the secret assignment of open book accounts.

A trade acceptance must always represent a completed merchandise transaction and cannot be used as a means to enforce pay-

## Trade Barometers

See Business Barometers.

## Trade Creditor

A person, firm, or corporation to which a business is indebted for purchases on open account, or as evidenced by its notes payable.

## Trade Cycle

Same as *Business Cycle* (q. v.).

## Trade Discount

A deduction from the published list price allowed to the trade, as distinguished from

FORM OF TRADE ACCEPTANCE RECOMMENDED BY THE AMERICAN ACCEPTANCE COUNCIL

ment of debts past due, or as an evidence of a loan, *i. e.*, they are to be based solely in connection with current merchandise transactions. Federal Reserve banks may rediscount trade acceptances, or purchase them in the open market provided they conform to the eligibility requirements. "The Federal Reserve bank shall take such steps as it deems necessary to satisfy itself as to the eligibility of the . . . trade acceptance offered for rediscount and may require a recent financial statement of one or more parties to the instrument. The trade acceptance should be drawn so as to evidence the character of the underlying transaction, but if it is not so drawn, evidence of eligibility may consist of a stamp or certificate affixed by the acceptor or drawer in a form certificate to the Federal Reserve bank." (Federal Reserve Board Regulations, Series of 1920, V, b).

(See Acceptance, Bank Acceptance.)

## Trade Balance

See Balance of Trade.

cash discount. The purpose of trade discount is to permit manufacturers and merchants dealing in commodities with frequent and wide price fluctuations to adjust the fixed price list as published to current market quotations; thus, trade discounts offered depend upon current market conditions.

## Trade Dollar

The trade dollar of 420 grains troy was authorized by the act of February 12, 1873. It was intended for circulation in oriental countries as a substitute for the Mexican dollar, which it slightly exceeded in weight; but by the terms of the authorizing act it was made legal tender in the United States in sums not exceeding \$5.

This legal-tender quality was withdrawn by the joint resolution approved July 22, 1876, and the coinage was limited to such amount as the Secretary of the Treasury should consider sufficient to meet the export demand. The act of February 19, 1887, provided for the retirement of trade dollars and their recoinage into standard silver dollars

or subsidiary silver. For six months after the passage of the act they could be exchanged at the Treasury or any subtreasury, dollar for dollar, for standard silver dollars or subsidiary coin.

The total number of trade dollars coined was 35,965,924. The number redeemed under the act of 1887 was 7,689,036, and from the bullion resulting from the melting of these dollars there were coined in subsidiary silver \$2,668,674.30, and into standard silver dollars \$5,078,472. Since the expiration of the period of redemption, trade dollars have been purchased as bullion when presented at the mints.\*

### Trade Paper

Notes, or trade acceptances given in exchange for merchandise, rather than money. Same as *Business Paper* (q. v.).

### Trader

A person who makes a business of speculating. Also a name given to a person who executes orders of others on the floor of an exchange, or otherwise. (See Operators.)

### Trade Readjustment

See Business Cycle, Readjustment.

### Trade Reference

The name of a business house, usually a creditor, but sometimes a debtor, given by another business house to a bank, business house, or mercantile agency, in order that its credit reputation may be investigated. No organizations are in a better position to know the character, ability and general standing of a given enterprise than its creditors. It is customary when a business house desires to open credit relations with another, that the latter request names of references for investigation purposes pending the allowance or rejection of the application.

### Traders' Market

See Trading Market.

### Trading Area

See Trading Market.

### Trading Market

A narrow, dull, inactive market in which prices "cover the same ground over and over;" a market in which public participation is negligible, transactions being largely

confined to those of professional traders, and therefore sometimes called a professional market. A trading market is a preparatory, hesitating condition preceding an impending movement upward or downward. In a trading market the range of stocks is kept within a few points and the trading area is a small range between the limits of which the movement of prices is confined.

### Trading Unit

See New York Stock Exchange.

### Trading Value

Among traders or speculators this term is used to refer to the price at which a purchase, whether a bond, stock, real estate, or commodity, must be sold in order to "get out even," or, in the language of speculation, the price at which a purchase "stands" the owner, *e. g.*, if a stock has been purchased at 90, it must be sold at that price to avoid taking a loss. The trading value at the time of actual purchase is equal to the cost, market and book values.

Where trading operations are constantly engaged in, a record of trading values is extremely important, because these values are the indicators of the profitableness of individual transactions. To illustrate the use of trading value, suppose ten bonds having a par value of \$1,000 each, are bought for \$9,000. The trading value is 90 (100 equals par), that is, ten bonds would have to be sold at 90 in order to avoid taking a loss. If, however, five of these bonds should be sold for \$5,000, the trading value for the remaining five is 80 because they may be sold at that price without having to close out this particular block of bonds at a loss. Bond and stock traders sometimes apply the profit made in one group of securities to losses made in others.

### Transfer Agent

See Stock Transfers.

### Transfer Book

The stock transfer ledger in which changes of ownership in stock are recorded, *i. e.*, the transferor debited and the transferee credited.

### Transferee

See Stock Transfers.

### Transfer Office

Office of the transfer agent. ( See Stock Transfers.)

\* From Treasury Department Bulletin.

**Transfer of Stock**

See Stock Transfers.

**Transferor**

See Stock Transfers.

**Transit Clerk**

A bank clerk who has charge of the collection of out-of-town *Cash Items* (q. v.). (See Collection Clerk.)

**Transit Department**

The department of a bank which collects checks and other items drawn on out-of-town banks. The principal media of collection are through the *Federal Reserve Check Collection System* (q. v.) and through other banks acting as collecting agents.

**Transit Fanfold Machine**

A special type of adding-typewriter used in the preparation of transit letters. (See Transit Letter.)

**Transit Item**

See Out-of-town Checks.

**Transit Letter**

A letter or deposit slip addressed to a Federal Reserve bank, or other bank acting as collecting agent, containing a list of the enclosed out-of-town checks to be collected for, and the proceeds remitted to, the sending bank. A transit letter describes each listed check with the following details: (1) transit number of the drawee (paying) bank (if the transit number is not used, the name and location of the bank is written out); (2) name or transit number of the sending (owning) bank; (3) amount; (4) any special instructions, *e. g.*, no protest, wire non-payment, deliver documents upon payment only, etc.

**Transit Number**

See Numerical Transit System.

**Transit System**

See Numerical Transit System.

**Travelers' Cheques**

International cheques, or more technically, a modified form of a traveler's letter of credit, not drawn on any specified bank or banks, but payable at practically all banks throughout the world, and guaranteed by some well known institution. They furnish a convenient and safe currency for travelers and may be purchased at all principal banks for cash. They are issued in convenient de-

nominations, in dollars—\$10, \$20, \$50, and \$100—, but are also available in foreign currencies, chiefly sterling and francs. The signature of the payee (usually also the buyer) is written on the face of the check at the time of purchase. Space is reserved for the beneficiary's counter-signature in the presence of the person agreeing to cash the cheque, for purposes of identification. The signature written in the presence of the paying bank or other institution, must correspond with the signature written at the time of the purchase, agreement of the two signatures being regarded as sufficient identification for the payment of the money. For this reason, a traveler's cheque should never be countersigned by the payee, except in the presence of the person who agrees to accept it. These cheques are almost universally acceptable abroad, and the principal hotels, railroads, steamship lines and merchants accept them as freely as cash.

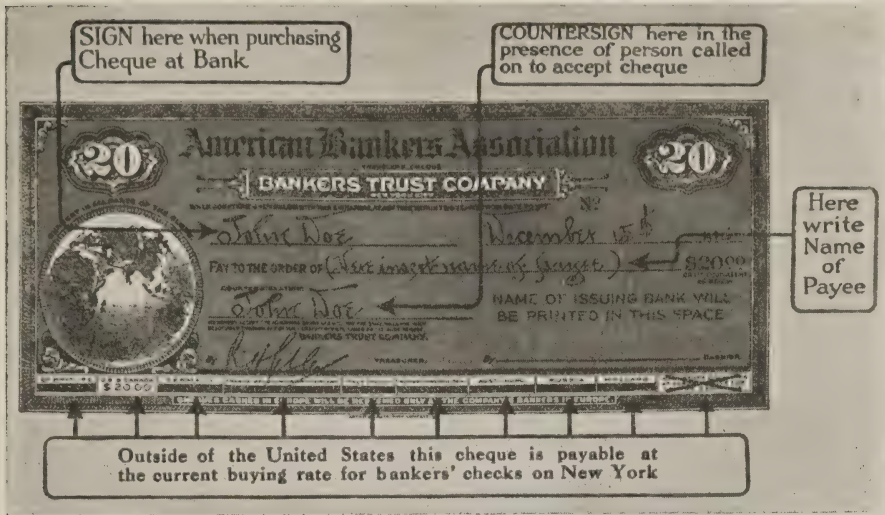
Before the war, travelers' cheques issued in dollars were payable at fixed rates of exchange. Since the war, dollar travelers' cheques are convertible into various foreign currencies at the prevailing buying rate of exchange for bankers' cheques on New York on the date presented. Nowadays it is usual for American tourists to "shop around" among various institutions in order to obtain the best rate. When drawn in a foreign currency, these cheques are payable at face value.

Three types of travelers' cheques can be purchased: American Bankers' Association cheques, American Express Company cheques, and cheques issued by several of the larger banks. The commission for issuance is usually one-half of one per cent.

Travelers' cheques are both safe and convenient, and if lost or stolen, no loss is likely to be incurred, due to the fact that no person other than the payee can cash them, since the counter-signature must be written in the presence of the person agreeing to accept them. In case of loss, however, owners of American Bankers' Association cheques are requested to inform the nearest office of the William J. Burns International Detective Agency, Inc. Reimbursement of lost cheques will be made after a sufficient time has elapsed upon filing of a satisfactory bond of indemnity. Unused portions of travelers' cheques are redeemable at face value by the issuing bank. When presented for redemption they must be countersigned exactly as when cashed at any other place.

Banks sometimes issue guaranteed travelers' cheques, in which case the payee does not pay for them at the time of issue but





AMERICAN BANKERS ASSOCIATION TRAVELER'S CHEQUE

permits the bank to charge his account after they have returned from abroad and presented to the payee's bank for collection.

The form and method of operation of a traveler's cheque is shown in the above illustration.

**Traveler's Letter of Credit**

A letter issued by a domestic bank introducing the bearer to its correspondents in a foreign country and instructing such correspondents to honor drafts, up to a specified limit, drawn by the bearer, usually in the currency of that country. Travelers' letters of credit are issued for the convenience of foreign travelers and answer the same purpose as travelers' cheques.

Travelers' letters of credit are of two types, circular and specially advised, usually the former. A circular letter of credit enables the borrower to negotiate drafts at any one of a number of foreign correspondents which will pay against drafts so drawn to the borrower, thus enabling the borrower to obtain funds wherever he may be traveling. The following is a form of circular letter of credit:

Circular Letter of Credit  
 No. .... For \$.....  
 issued by  
**BLANK BANK**  
 New York, .....19.....  
 Messrs. the Banks and Bankers  
 (mentioned on the accompanying list  
 of correspondents.)

Gentlemen:

We beg to introduce to you and to recommend to your courtesies .....  
 .....  
 to whom kindly furnish funds in sums as desired up to an aggregate amount

Dollars against demand drafts on Blank Bank, New York City.

We engage that such drafts will meet with due honor at this bank if negotiated not later than.....19..... and marked "drawn under Blank Bank's Letter of Credit No....." upon the condition that the amount of each draft negotiated by you shall have been inscribed on the second page of this letter, the draft signed in your presence and the signature carefully compared by you with holder's signature appearing on the inside of the cover of the accompanying list of correspondents duly certified to by this bank.

Kindly purchase drafts at the best rate at which you buy demand drafts on New York, deducting all your charges, if any, and please see to it that the present letter be cancelled and attached together with the list of correspondents to the draft which exhausts the Credit.

A specially advised letter of credit is designed for the benefit of a person who expects to remain in one city in which the bearer is entitled to draw drafts only against a single designated foreign correspondent.

Travelers' letters of credit are usually paid

for in advance and any unused portions may be redeemed at the expiration of the credit. A commission is charged at the time of issue. Sometimes travelers' letters of credit are issued without payment by the bearer in advance; instead, arrangements are made with the issuing bank for charging the bearer's account when drafts negotiated by the bearer with foreign correspondents are presented to the bank issuing the credit.

Letters of credit may be issued in dollars, or a foreign currency, according to the wishes of the buyer. If issued in dollars, drafts drawn are converted into foreign currency by the paying bank at the current rate of exchange.

The purchaser of a circular letter of credit is entitled to the following papers from the issuing bank: (1) the letter of credit itself; (2) a booklet containing a complete list of correspondents which will pay against the letter of credit; (3) a travelers' telegraphic code by which the holder may communicate in code with the issuing bank, or its affiliations, concerning its credit, or otherwise; (4) a book of identification containing a specimen signature of the bearer which, in effect, is a letter to correspondent and other banks mentioned in the booklet (above referred to), and reads thus:

"Dear Sirs:

We beg to introduce to you the bearer of our traveler's circular letter of credit No. ...., a specimen of whose signature will be found below."

Letters of credit are issued for a specified amount indicated on the face and are subject to a certain expiration date, after which cheques drawn under the letter of credit will not be honored for payment by foreign correspondents.

When the beneficiary of a letter of credit wishes to procure funds, he presents the letter of credit to a correspondent and draws a draft for the amount desired, being careful to reserve the affixing of his signature until it can be made in the presence of the paying officer. The signature on the draft must correspond with the signature of the beneficiary as it appears in the letter of identification. This agreement of signatures completes the process of identification and certifies to the foreign bank paying the draft that the bearer of the letter of credit is entitled to the funds. On the second page of the letter of credit, payments are indorsed by each correspondent bank which honors the bearer's draft. The indorsement shows the date of payment, name of paying bank, and amount written in

figures and words. The bank that pays the last amount due takes up the letter of credit and forwards it to the issuing bank along with the draft which it has paid.

### Treasurer of the United States

See Treasury Department.

### Treasure Trove

Money, plate, or bullion, found hidden in the earth, buildings, or other places, the owner of which is unknown. The title to treasure trove passes to the Government.

### Treasury Bills

Short term notes issued by the British Government through the Bank of England, payable in three, six, or nine, but not more than twelve months from date, and forming part of the unfunded debt of that country. These bills were first introduced in England in 1877 as a means of providing funds for the Treasury. They do not bear interest, but like commercial bills, are offered at a discount from the face, which varies according to the term and current rate of interest. The rate of discount for these bills is regarded as representing the current open market for the highest class paper in England. These bills correspond to the "United States Certificates of Indebtedness," more popularly known as Treasury Certificates.

### Treasury Certificates

See Certificates of Indebtedness.

### Treasury Department

This department was established by an act of Congress on September 2, 1789. It is that branch of the Government which has charge of the national finances, collects its revenues, takes custody of its funds, and makes disbursements on warrants and drafts. The department is under the general supervision of the *Secretary of the Treasury* (q. v.). Three assistant secretaries perform such duties as the secretary may prescribe.

The Treasury department is divided into a number of bureaus each of which is administered by a separate Government official. The treasurer of the United States receives and disburses public moneys deposited with the treasury at Washington, with the various Federal Reserve banks, and National bank depositories.

The *Comptroller of the Currency* (q. v.) has general supervision over the organization and examination of the National banks in the United States, Alaska, and Hawaii, and



of handling all details in connection with National bank notes.

The United States registrar signs all bonds and notes issued by the Federal Government, and keeps records of the principal amounts and interest disbursements.

The *Bureau of Engraving and Printing* (q. v.) designs and prints paper money, bonds, postage stamps, revenue stamps, etc.

The Director of the Mint has charge of the various coinages of the United States, and the direction of the activities of the various mints. (See Mint.) The Secret Service Bureau is charged with the detection and arrest of counterfeiters.

The Customs Bureau supervises the collection of customs duties on imports for the various customs districts at the different ports of entry.

The Commissioner of Internal Revenue supervises the collection of the income taxes and all other internal revenues.

The department also includes the public health service, the supervising architect of Federal buildings, and the coast guard.

### Treasury Notes of 1890

Notes authorized by the act of July 14, 1890, commonly called the Sherman Silver Purchase Act. The Secretary of the Treasury was directed to purchase each month 4,500,000 ounces of fine silver at the market price and to pay for the same with Treasury notes redeemable on demand in coin and legal tender for all debts, public and private, except where otherwise expressly stipulated in the contract. It was provided in the act that when the notes should be redeemed or received for dues they might be reissued, but that no greater or less amount of such notes should be "outstanding at any time than the cost of the silver bullion and the standard silver dollars coined therefrom, then held in the Treasury, purchased by such notes."

The authority for the purchase of silver bullion under this act was repealed by the act of November 1, 1893, up to which date the Government had purchased 168,674,682.53 fine ounces, at a cost of \$155,931,002, for which Treasury Notes were issued. The amount of Treasury Notes redeemed in gold up to the close of the fiscal year 1915 was \$110,712,364 and the amount redeemed in standard silver dollars was \$84,556,867. Treasury notes redeemed in standard silver dollars are cancelled and retired in accordance with the requirements of the act of 1890. Sections 5 and 8 of the act of March 14, 1900, also provide for the cancellation

and retirement of Treasury notes to an amount equal to the coinage of standard silver dollars and subsidiary silver from the bullion purchased with such notes. The cancellation of notes on account of coinage since March 14, 1900, was \$69,120,135, so that there remained outstanding June 30, 1915, but \$2,254,000. Since these notes are retired as fast as received by the Treasury Department and supplanted by silver certificates supported by silver coin previously purchased with the Treasury Notes, for all practical purposes they may be disregarded.

These notes are legal tender for all debts, public and private, except where otherwise expressly stipulated in the contract. They are redeemable in United States gold coin or in standard silver dollars at the option of the holder by the U. S. Treasurer.

### Treasury Savings Certificates

A form of investment certificate issued by the United States Government Savings System. These certificates are intended for investment by the small investor who demands the utmost in safety (equivalent to a Government bond), ability to redeem his investment *on demand* without loss of principal, and a rate of interest as high or higher than that given by a savings bank. Under this plan amounts not less than \$20 nor more than \$4,000 in a given year can be invested in the name of any person, firm, corporation, or association. The term of these certificates is five years, and if a sum remains invested for this length of time it increases 25 per cent., or at the rate of about 4½ per cent. on the purchase price. If held to maturity, the interest is compounded semi-annually and allowed to accumulate and to be paid in a lump sum with the principal at maturity. If redeemed before maturity, accumulated interest at about 3½ per cent., compounded semi-annually is paid. They cannot be called for redemption by the Government before the end of the five-year period. They are secured by the faith of the United States and are exempt from all state, county and local taxes (except estate and inheritance taxes), and from the normal Federal income tax. These certificates are registered automatically in the name of the owner which furnishes adequate protection against loss. Applications for investment may be made through post offices or banks.

### Treasury Statement

A weekly statement issued by the United States Treasury Department showing weekly expenditures, and expenditures for the month



## THE TREASURY STATEMENT

Revenue receipts and expenditures as at close of business May 18, 1922.

	This Month.	Corresponding Month 1921.	*Fiscal Year 1922.	Corresponding Fiscal Year 1921.
Customs .....	\$20,936,802.34	\$15,733,356.37	\$302,940,148.56	\$274,089,982.17
Internal revenue:				
Income and profits tax.....	14,914,975.02	22,922,393.68	1,759,911,857.00	2,611,785,170.90
Miscellaneous .....	44,528,769.85	73,593,118.74	1,048,842,439.65	1,253,543,329.50
Miscellaneous revenue .....	74,321,015.09	40,988,655.48	463,072,556.01	654,499,254.19
Panama Canal Tolls, &c.....	461,942.74	547,198.26	10,189,082.75	11,076,395.67
Total ordinary .....	\$155,163,505.04	\$153,784,722.53	\$3,584,956,083.97	\$4,804,994,132.43
Excess of ordinary receipts over ord. disbursements .....	13,976,880.51	.....	623,893,301.03	287,860,752.28
Excess of ord. disbursements over ord. receipts .....	.....	85,485,471.39	.....	.....
Expenditures .....	\$141,186,624.53	\$239,270,193.92	\$2,961,062,782.94	\$4,517,133,380.15

\* Receipts and disbursements for June reaching Treasury in July included.

## THE TREASURY STATEMENT

to date, with comparisons for the corresponding periods in the previous year.

**Treasury Stock**

A corporation's own stock which has been issued and reacquired by purchase, donation, or otherwise. Such stock is an asset, but has no voting power or right to draw dividends. In financial statements, it may appear on the asset side, but is preferably shown as a deduction from stock issued and outstanding.

The term is sometimes, but improperly, used synonymously with *Unissued Stock* (q. v.). It differs from the latter because it has previously been issued, is fully paid, and may be sold at less than par.

**Trial of the Pyx**

An annual ceremony required by the British coinage laws for the purpose of testing the weight and fineness of gold and silver coins to see that the coinage laws are being complied with. The pyx is a box in which specimen coins made at the mint are preserved. The test is conducted by a jury consisting of the Goldsmiths' Company, summoned by the Lord Chancellor. When coinage was done by contract, the trial, held at irregular intervals, had some importance, since the contractors were not entitled to full payment until after such trial. Since coinage has been conducted by the Government mint, the trial of the pyx is largely a perfunctory ceremony.

In the United States, this term refers to the test of the fineness and weight of coins manufactured at each new minting to determine whether or not the variation is in excess of the limits of error permitted by law. (See Remedy, Tolerance.)

**Triangular Exchange**

See Arbitrage.

**Troy Weight**

A system of weights used by the mint, jewelers and apothecaries. The apothecaries' table of weights is as follows

20 grains=1 scruple

3 scruples=1 dram

8 drams=1 ounce

12 ounces=1 pound.

The mint and jewelers' table of weights is as follows:

24 grains=1 pennyweight

20 pennyweights=1 ounce

12 ounces=1 pound.

The grain is the same weight in both tables, there being 5,760 grains to the troy pound.

**True Discount**

See Discount.

**Trust**

This term has two meanings:

(1) A popular name for a business combination controlling a large number of plants or stores; a combination of business enterprises for the purpose of eliminating competition and securing greater economies of production and distribution.

(2) As defined by Webster, a trust is "something committed to a person's care for use or management, and for which an account must be rendered." As defined by Blackstone, a trust is "an estate devised or granted in confidence that the devisee or grantee shall convey it, or dispose of the profits, at the will of or for the benefit of

another; an estate held for the use of another." (See Trust Company, Trusts.)

## Trust Company

As defined by the New York banking law a "corporation organized for the purpose of taking, accepting and executing such trusts as may be lawfully committed to it, acting as trustee in the cases prescribed by law, receiving deposits of money and other personal property, and issuing its obligations therefor, and lending money on real and personal securities."

"Technically speaking, a trust company is a corporation organized for the purpose of accepting and executing trusts, acting as trustee under wills, bond issues, registrar of bonds and stocks, executor or administrator of estates, etc., although by law and practice trust companies may do a general banking business, but do not issue currency."\*

"Banking in a more or less limited form, execution of corporate trusts, execution of individual trusts, care of securities and valuables. In addition, other functions are sometimes exercised, such as life, title, and fidelity insurance, and the business of becoming surety. The earlier companies in the United States were chartered to manage individual estates only and to act in certain fiduciary capacities; the recent development of the trust company has been in the direction of banking functions and corporate trust business."†

In speaking of the diversity of trust companies' functions, Mr. Clay Herrick‡ says that the term "is applied to corporations whose functions vary greatly. Some are simply banks of deposit and discount; many are savings banks; some are safe-deposit companies; some are title-insurance or fidelity insurance companies; some serve chiefly as fiscal agents for corporations, and as registrars, transfer agents, intermediaries in reorganizations, promoters, etc.; some devote themselves to the care of estates and to services as executors, administrators, guardians, trustees, etc. Most companies combine two or more of these classes of functions, while a few undertake nearly all of them. In early years the life insurance and trust businesses were intimately associated."

Originally, trust companies were created to act as incorporated trustees. In acting in various trust capacities, administration of estates, custodianship of funds, trusteeship

under mortgage indentures, etc., they naturally came into possession of large sums of money and securities, and accordingly it became necessary to extend their functions beyond those of a merely fiduciary character. Insofar as cash was handled, banking operations became necessary and the handling of securities made necessary the development of investment and safe deposit departments. For these reasons, a modern trust company's operations are not much different from those of a large bank. Recent legislation has tended to eliminate the difference between trust companies and banks and in most states trust companies are now permitted by law to perform all the functions of a bank, in addition to trust functions. The organization of a large trust company comprehends a trust department, banking department, safe deposit department, investment department, and title insurance department.

The trust functions of a trust company are divided into two broad classes, individual trusts and corporate trusts. Individual trusts consist of acting in the following capacities: executor, administrator, trustee, guardian, conservator, custodian, committee in lunacy, etc. Corporate trusts consist of acting in the following capacities: fiscal agent, (*e. g.*, paying agent for interest coupons and dividends), registrar of stock, transfer agent, trustee under a deed of trust, depository for bondholders protective committee, reorganizer, receiver, etc.

Trust companies lay claim to the following advantages over an individual trustee:

(1) Perpetual existence. The trust company is permanent while the individual trustee may resign, die, or become incapacitated.

(2) Superior responsibility. The trust company is required to keep its trust funds separate from its banking assets. The trust department is subject to examination by the State Banking Department and in case of failure, trust funds are held intact for the beneficiaries and cannot be levied upon by the company's general creditors. In many states, moreover, a trust company must make a deposit of securities with the State Banking Department as a guarantee of faithful discharge of its duties.

(3) Permanent location. The trust company has an established place of doing business; it does not move away and is accessible every business day.

(4) Superior facilities. A trust company can employ experts on investments and by maintaining a highly specialized accounting system, safe deposit and banking departments, it can furnish better facilities.

\* W. H. Kniffin: *The Practical Work of a Bank*, p. 32.

† Kirkbride, Sterrett & Willis: *The Modern Trust Company*, p. 7.

‡ *Trust Companies*, p. 1.

(5) Greater economy. A trust company is not required to give bond, which is a saving to the estate. Being an authority upon investments, the presumption is that better protection against unnecessary losses and a more certain income can be secured in the investment of trust funds. Usually no charge is made for drawing or lodging wills. By making a specialty of the business the trust company can better protect the interests of the estate.

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#### Trust Deed

See Deed of Trust.

#### Trust Department

The department of a National or state bank which engages in trust work. Section 11 (k) of the Federal Reserve Act gives National banks authority to conduct a trust department with permission of the Federal Reserve Board which has power "to grant by special permit to National banks applying

therefore, when not in contravention of state or local law, the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which state banks, trust companies, or other corporations which come into competition with National banks are permitted to act under the laws of the state in which the National bank is located."

In most states, state banks are also permitted to organize trust departments. In all cases, a trust department of a bank must keep its trust records and assets segregated from its banking records and assets. The bookkeeping must be regarded as distinct. If trust funds are deposited in the banking department they must be secured by a deposit of United States bonds or other approved securities. Securities and assets belonging to each separate trust must, moreover, be kept separate from one another. Trust employees are required to furnish bond for the faithful performance of their duties.

#### Trust Deposits

Deposits which are made by one person as trustee for another person.

#### Trustee

A person or corporation to whom a trust is committed. Federal and state laws permit a trust company or trust department of a bank to accept and execute any trust which is lawful for an individual.

#### Trust Estate

An estate the equitable title to which belongs to one person, but the possession and management of which is intrusted to another person or corporation as trustee. The income of such an estate belongs to the equitable owner, *i. e.*, the beneficiary, or *Cestui Que Trust* (q. v.).

#### Trust Fund Investments

See Legal Investments for Trust Funds.

#### Trust Funds

Funds which have been placed in the custody of an individual or corporate trustee in accordance with a trust agreement, trust deed, or will, or in the absence of specific instructions, according to the law of the state. Investment of trust funds is usually restricted to securities approved by the states. (See Legal Investments for Trust Funds, Trusts.)



## Trust Investments

See Legal Investments for Trust Funds.

## Trust Officer

The manager of a trust department in a bank or trust company, that is, the official in charge of the trust business. He is empowered to sign instruments, including checks, and to commit the institution, but only in connection with the trust business.

## Trustor

One who creates a trust. (See Trusts.)

## Trust Receipt

A contract or trust agreement between a bank and its debtor-borrower which is temporarily substituted for other collateral securing an advance. The object of the trust receipt is two-fold: (1) to evidence the delivery of certain property to the debtor-borrower by the lending bank, and (2) to obtain acknowledgment of the legal title to such property by the lending bank.

The trust receipt may be used in the following types of credit transactions: (1) in substitution of collateral, *e. g.*, securities, notes and acceptances, receivables, or merchandise, on which the bank has made advances, (2) in exchange for documents representing title to goods in storage or transit, *e. g.*, warehouse receipts, bill of lading (ocean or rail), or cotton tickets, and (3) in exchange for documents covering import shipments, whether the merchandise is to be sold, warehoused, processed or manufactured.

The trust receipt is used principally in connection with import transactions in which the importer's bank holds the bill of lading and draft drawn against the shipment. The importer needs the bill of lading in order to obtain possession of the merchandise at the steamship terminal, but if the bill of lading is released by the bank, the latter surrenders its security for the advance. The terms of credit have probably been arranged, however, so that the draft will not be due until after the importer has had an opportunity to liquidate the merchandise. The purpose of the trust receipt is to bridge the gap between the release of the bill of lading by the bank and the maturity of the draft; at the same time placing the legal title of the goods until (such time as the draft is paid) in the name of the lending bank.

The legal status of the trust receipt has not been finally adjudicated. It has been variously held to be a conditional sale, chattel mortgage, and a secret lien. Courts

have generally upheld the trust receipt except where banks have endeavored to press their claims against third parties. In order to maintain rights against these parties it is necessary for banks to record the trust receipt in all states except where the instrument is regarded as a chattel mortgage.

Trust receipts are not viewed as good collateral and it is the disposition of banks not to take trust receipts from their customers unless their credit standing is sufficiently meritorious as to warrant an unsecured advance of like amount. Trust receipts are not considered as collateral by the Federal Reserve Board unless the goods covered therein are earmarked and can be identified at all times; are to be replaced by warehouse receipts; or an actual sale of the goods has been completed (in which case the receipt becomes collateral only for a reasonable time.)

The following is a typical form of trust receipt:

To the ..... Bank.

We acknowledge the receipt from you of the following merchandise, your property, specified in the bill of lading per ....., dated ....., which bill of lading has been delivered by you to us without waiver of your ownership of the goods therein described. Said goods are marked and numbered as follows: (Here follows description of merchandise).

It is understood that said goods are (1) consigned to us by you for sale on your account, and in consideration thereof, we hereby agree to hold said goods in trust for you, and as your property, with liberty to sell same for your account, or to manufacture and re-manufacture the same without cost or expense to you; and we (2) further agree to keep said goods and the manufactured product and also the proceeds thereof, whether in the form of money, or bills receivable, or account, separate and capable of identification as your property, and (3) in case of sale to deliver, as soon as received, the full net proceeds thereof direct to you to apply against ..... on our account under the terms of letter of credit No..... issued for our account, and for the payment of any other indebtedness of ours to you, whether due or to become due.

You may at any time cancel this trust and take possession of said goods or of the proceeds of such as may then have been sold, wherever the said goods or proceeds may then be found, and in the event of any suspension, insolvency or bankruptcy on our

part, or of the non-fulfillment of any obligation made or assumed by us under said credit, or under any other credit issued by you on our account, or of the non-payment of any indebtedness on our part to you, all obligations, acceptances, indebtedness, and liabilities, whether due or to become due shall thereupon at your option mature and be due and payable. We further agree to keep said property insured against fire, payable in case of loss to you, without cost or charge to you, hereby waiving any lien, which we might otherwise have on said property for insurance duties or charges paid by us. Any insurance money received for any loss shall be subject to the trust herein contained in the same manner as the goods themselves.

.....  
Importer.

For a full treatment of the trust receipt see Federal Reserve Bulletin, issue of January, 1922, page 32.

## Trusts

From early times trusts have had for their purpose the preservation of property in order that favored individuals or institutions might benefit as a recipient of the income from the principal of the trust, or come into the possession of the principal itself. In the establishment of a trust, there are customarily three principal parties involved: (1) trustor, who is also known as the grantor or donor, the party creating the trust, (2) beneficiary, or one for whose benefit the fund is established, and (3) trustee, who is charged with the management and preservation of the property which constitutes the trust estate.

Classified by origin, trusts may be created by a declaration or deed of trust, or by will. The former popularly known as living trusts, personal trusts, or voluntary trusts, may take effect immediately upon the execution of the instrument. Unless the trustor expressly reserves the right to modify or revoke such a trust becomes irrevocable even by the trustor himself; except that in New York state the trust may be revoked with the consent of all parties beneficially interested. A living trust may be created for the benefit of the trustor himself or for other persons, and the trustor may make himself a sole trustee or jointly with others for the benefit of a third party. The terms of a testamentary trust, *i. e.*, one created by will cannot be altered after the death of the testator.

Various circumstances have operated to increase public interest in trusts, and in the creation of trust estates. Ambitious persons desire to create a competence for them-

selves in old age and to insure the education and support of their children during the period of their infancy. But if this is left in their own hands it is subject to the constant temptation of being dissipated. On the other hand, if it is given outright to relatives, the property may be squandered, or the beneficiary may be the victim of unscrupulous persons or other well intentioned but inexperienced advisers. Consequently, trusts have been placed in the hands of trusted, experienced, and conscientious persons or corporations (banks and trust companies) with the end of administering the property and its income in accordance with the desire of the testator or trustor, as expressed in the will or deed of trust.

Among the various provisions incorporated in the trust instrument as affecting the beneficiaries are the following: (1) trusts in which the income is to be periodically paid over to the trustor himself, or to the wife, child, parent, or friend of the trustor, or to a charitable or other institution; (2) trusts in which the income is to be accumulated for a minor until he or she arrives at the age of majority; (3) trusts in which the principal is to be paid over to one beneficiary at a certain age (the remainderman), the income in the meanwhile being paid to another or the same beneficiary (the life-tenant); (4) trusts in which the principal is to be paid to the beneficiary upon marriage as a marriage settlement.

Because of the nature and responsibility of the relationship brought into existence by the establishment of a trust the law has surrounded the administration of trust funds with numerous safeguards for the protection of all concerned. Among these safeguards are the following: (1) the trustee must keep accurate accounts of the funds held, invested, and distributed, and trust funds must be kept entirely segregated from individual or corporate assets; (2) the trustee must comply with the wishes of the trustor in carrying out the terms of the trust; (3) the trustee is not permitted to take advantage of his position to profit at the disadvantage of the beneficiaries; (4) unless the character of the investments has been prescribed by the trustor, then the trustee is bound to confine himself to the class of investments permitted by the law of the state as being legal for trust funds.

Although the law places safeguards around trust funds, it has also prevented the locking up of such funds beyond a reasonable length of time. To circumvent this tendency which arises from the natural desire to retain in the family the property which it has ac-



quired, two rules have been written into the trust laws of most states, *e. g.*, New York. One of these is the rule against perpetuities which makes a gift void if the vesting of title is postponed beyond two lives in being and the minority of a third life. The other law is that no funds may be placed in trust for the accumulation of income except during the period of legal infancy of a minor beneficiary. This law has for its object the avoidance of concentration of wealth in one family and to insure the re-entry of the trust funds into the normal channels of business.

The compensation of the trustee is usually agreed upon between the trustor and trustee; if not, the fee is determined by the court. (See Deed of Trust, Legal Investments for Trust Funds, Will.)

### Turn

A completed speculative transaction involving a purchase and sale. (See Round Turn.)

### Turn in the Market

A change in or reversal of the price tendency; the beginning of a major swing upward after prices have declined or remained on a low plateau over a long period, or the beginning of a major swing downward after a period of rising prices, or a high plateau.

### Turnover

A general term used somewhat loosely to indicate the amount of, or rapidity of sales, as compared with another factor. Properly, the term should be used to indicate the number of times and rapidity with which invested capital, merchandise, or accounts are "turned over" or "moved" in a given period. It is therefore a ratio determined by dividing the amount of annual sales by the average invested capital, merchandise, or receivables, etc. For example, if the annual sales are \$5,000,000 and the invested capital \$4,000,000, the capital turnover is 1.25 times. (See Account Turnover, Credit Barometrics, Merchandise Turnover.)

### Turn the Corner

A term used in business forecasting and securities literature to denote the reversal in the trend of affairs of an individual company, of a group of securities, or of business in general. The turn may be upward after a prolonged period of depression, or downward after a period of prosperity.

### Twenty Per Cent. Rule

A term applied to the practice of many banks requiring borrowing customers to maintain average deposit balances equal to about 20 per cent. of such borrowings. A survey conducted in 1920 by the Division of Analysis and Research of the Federal Reserve Board showed that while the practice of requiring a certain proportion between balances and borrowings was common among banks, the proportion was not uniformly 20 per cent., but ranged from 10 to 25 per cent. The greatest force of the application of this rule is felt in New York City.

The chief reasons for requiring a 20 per cent or other proportion of balances to borrowings are: (1) borrowers should maintain adequate cash working balances sufficient to insure a safe liquid position, thereby protecting both the borrower and lending bank; (2) the right to credit must be earned and since a bank could not lend freely unless certain proportions were kept on deposit, they preferred to select customers as borrowers who earned the right to a credit force by keeping adequate balances; (3) commercial banks, morally, though not legally, become bound to insure the borrowing customers' credit line, provided no change in financial status occurs. The insistence on keeping balances in proportion to loans may be regarded as a premium to insure a credit force equal to the line granted; (4) bank operating costs are considerably increased as the result of the exercise of its loan and credit functions. This increased cost is passed on to borrowing customers.\*

### Two-Cent Piece

See Bronze Coins.

### Two-Dollar Brokers

A class of members of the New York Stock Exchange who do not conduct commission houses, or trade on their own account, but execute orders for other brokers at the rate of \$2.00 per 100 shares. Many stock exchange members maintaining commission houses with branches have so many accounts and consequently orders, that they cannot execute them all and still provide adequate service for their customers. This is especially true when the market is active, and at the opening each day when numerous

\* See the author's article entitled "The Twenty Per Cent. Rule, or Why Banks Keep a Part of the Money They Loan." (The Bankers Magazine, January, 1922.)



orders have accumulated over night. There are about two hundred and fifty two-dollar brokers on the New York Stock Exchange engaged in executing orders for other members. This reduced commission is possible since the two-dollar broker does not maintain a commission house and has no overhead costs. It represents net profit, while the commission of a broker maintaining an establishment is subject to operating charges.

### **Two-Name Paper**

Notes, bills of exchange, trade and bankers' acceptances, with two signatures, each representing separate interests, responsible for payment. Trade and bankers' acceptances are, automatically at least two-name paper, since both the drawer and acceptor are liable to the discounting bank. Two-name paper is also known as double-name paper. (See Single-Name Paper.)

## U

### Unassented Securities

Stocks or bonds, the status, *i. e.*, the rights in or conditions of which, a corporation desires to change, but to which changes the owners have not agreed.

### Uncalled Capital

See Call.

### Unclaimed Balances

Bank balances which have remained dormant without deposits or withdrawals over a long period of time. In New York state, savings bank balances which "have not been increased or diminished by deposits or withdrawals, exclusive of dividend credits" for twenty years are deemed to be dormant.

There is nothing in the National Bank Act or Federal Reserve Act that specifically designates what disposition shall be made of unclaimed deposits. It is generally understood, however, that these balances remain a liability of the bank until they are paid, in the meantime being carried to an inactive ledger or suspense account. If a National bank dissolves, unclaimed deposits are transferred into the custody of the Comptroller of the Currency.

In other words, National banks are required to carry all deposits on their books as deposits until such time as they have been withdrawn, regardless of the length of time that may have elapsed since the last withdrawal. The Supreme Court of the United States on June 4, 1923, in the case of *The First National Bank of San Jose vs. State of California*, held that a state could not dissolve contracts of deposit even after twenty years, and that it could not require National banks to pay to it the amounts then due.

If a National bank should be thrown into the hands of a receiver, all moneys collected by the receiver are paid into the Treasury of the United States, and dividends to depositors are drawn on the balance in the Treasury to the credit of the insolvent bank, any amount unclaimed remaining in the Treasury.

The banking laws of most states, however, have clearly established the procedure in handling unclaimed balances, whether held by a state bank, private bank, savings bank, or trust company. In New York state, all

state banks must report to the superintendent of banks once a year all unclaimed deposits in excess of \$50, such report to set forth the name and last known address of the depositor, and the amount. Balances which have been dormant for five years are deemed to be unclaimed, and the bank is required to advertise the list of balances in a newspaper designated by the superintendent once a week for two consecutive weeks each year.

### Unclaimed Deposits

See Unclaimed Balances.

### Uncollected Items

An account which appears among the assets in the weekly statement of the Federal Reserve System, to represent the amount of items in process of collection, but not yet collected, for member banks. It is offset by the account entitled, *Deferred Availability Items* (q. v.).

### Unconfirmed Credit

See Letters of Credit.

### Uncovered Paper Money

Irredeemable paper money; paper money not supported, or only partially supported by a specie reserve.

### Underlying Bonds

Prior lien bonds; senior bonds; bonds secured by a mortgage lying closer to the ground than other issues secured by inferior liens on the same property; bonds secured by a first mortgage, or at least by a mortgage having priority over other mortgages on the same property. The term is an antonym of overlying or junior bonds. (See Underlying Mortgage.)

### Underlying Lien

A lien, *i. e.*, a right to retain property given as security until the claim against it has been paid, *e. g.*, a mortgage which underlies or is prior to others. A first mortgage is an underlying lien, but a second mortgage is also an underlying lien when there is a third. Any lien is an underlying lien except the last. The use of this term presumes that overlying or junior liens exist.

### Underlying Mortgage

A mortgage constituting a prior lien over other mortgages on the same property. Although usually understood to be a first mortgage, an underlying mortgage is any mortgage that takes precedence over another mortgage on the same property; thus, a first mortgage is an underlying mortgage when there are two; first and second mortgages are underlying mortgages when there are three; and first, second and third mortgages are underlying mortgages when there are four, etc.

### Underlying Syndicate

See Syndicate.

### Under the Rule

Whenever a member of the stock exchange becomes insolvent, or is unable to make good deliveries, his outstanding contracts to buy and sell are sold for his account by the chairman of the stock exchange. The method by which contracts are placed "under the rule" is covered in detail in article 28 of the Constitution of the New York Stock Exchange. Similar practices obtain in the other stock exchanges.

### Undertone

An expression used to indicate the fundamental underlying tendency of market prices neglecting hour to hour fluctuations; thus, the undertone of a day's market may be weak, steady, or strong.

### Underwriter

This term has two meanings:

(1) An insurer; a person or company which, for a compensation, undertakes any kind of insurance contract. (See Insurance.)

(2) A person or company which underwrites an issue of securities. (See Syndicate, Underwriting.)

### Underwriting

The act or process of guaranteeing the sale of an issue of securities by purchase at a stated price from the issuing corporation or governmentality by an underwriting syndicate. It devolves upon the underwriters to dispose of the securities to the investing public at a price sufficiently attractive to insure their sale, and yet yield the underwriter a profit.

For a discussion of the various sales outlets for bonds, see *Investment Market*. (See Syndicate.)

### Underwriting Agreement

See Syndicate.

### Underwriting Syndicate

See Syndicate.

### Undesignated Cities

Cities not designated by the Federal Reserve Board as "central reserve" or "reserve" cities. They include, therefore, all but about 63 of the largest cities. National banks in undesignated cities are required to maintain a reserve of 7 per cent. against demand deposits.

### Undigested Securities

Securities issued in excess of the capacity of the investment market to absorb them fully; securities not owned outright by ultimate investors, but held by syndicates, individual speculators and bankers with the intention of disposing of them when a favorable market opportunity presents itself. Sometimes securities purchased by an underwriting syndicate cannot for one reason or another be entirely sold to the investment public. Such part as remains unsold in the hands of the syndicate members is said to be undigested. The severe decline of security prices in 1903 is sometimes referred to as the panic of "Undigested Securities."

### Undivided Profits

The name of an account, also known as unappropriated profits, to which current net earnings or profits are credited. This title is of most frequent occurrence in bank accounting and corresponds to what is more usually known among manufacturing and mercantile corporations as surplus. It represents profits not yet distributed in dividends.

Banking institutions maintain two accounts, undivided profits and surplus. Current net earnings are credited to the former account, which consists of undistributed earnings, available for dividends, and to write off bad debts and special losses, while the latter is a capital surplus account not available for cash dividends from undivided profits, or a combination of both. (See Capital and Surplus, Surplus.)

### Uneven

An expression used to describe the stock market when prices fluctuate rapidly and over a wide range.



### Unfunded Debt

Floating debt; short-term debt; indebtedness not represented by bonds. (See Funded Debt.)

### Unified Bonds

See Unifying Mortgage Bonds.

### Unified Mortgage Bonds

See Unifying Mortgage Bonds.

### Uniform Bills of Lading Act

See Bill of Lading Act.

### Uniform Negotiable Instruments Law

See Negotiable Instruments Law.

### Uniform Warehouse Receipts Act

See Warehouse Receipts Act.

### Unifying Mortgage Bonds

Bonds issued (usually by railroad companies) for the purpose of combining several issues of bonds into one issue supported by a single blanket mortgage. The purpose of such an issue is to simplify a company's finances. When unifying mortgage bonds are issued, the amount authorized is usually sufficiently large to provide for future expenditures for some time to come. This title is practically synonymous with *General Mortgage Bonds* (q. v.) and *Consolidated Mortgage Bonds* (q. v.).

### Unincumbered

Free from all claims and debts; thus, real estate is unincumbered when there are no mortgages, or other liens, *e. g.*, taxes, against it.

### Unissued Stock

See Authorized Capital Stock, Capital Stock.

### United States Bonds

Bonds which are obligations of the United States Government and represent a debt which legally constituted Federal authorities covenant and promise to pay on a stated maturity date. These constitute the largest class of civil bonds. Federal Government bonds represent the highest form of credit

in the United States, since the debt of the Federal Government supercedes that of all other governmentalities.

There are three characteristics of Federal government bonds which set them apart from all others. Since the Federal Government cannot be sued against its will, the security of these bonds depends upon the good faith and integrity of the Government and the stability of the political organization. While this fact may seem to detract from the investment position of government bonds, it must be remembered that while a government may repudiate its debts, to do so would be to commit credit suicide. A nation which repudiates its debts undermines its credit standing with its own and other peoples and this is difficult to restore. Repudiation by the United States Government is scarcely conceivable. Not only does the United States Government enjoy a stable political organization, and power to control the resources and productivity of the nation, but also unlimited powers of taxation. These facts make valid the Federal Government's claim to the highest credit standing. Another characteristic, contrary to municipal and corporation bonds, is that the Federal Government can borrow for any purpose, whether productive or unproductive, without establishing special forms of taxation to pay off the bonds issued. Thus, a Government may borrow to build canals, improve harbors, *i. e.*, productive purposes, or to build museums, or purchase land for a National park, *i. e.*, unproductive purposes.

From an investment point of view, the value of a Government bond depends upon the public credit which a nation enjoys, stability of its political organization, resources, extent of development of resources, ability to tax its people, and per cent. of National debt to National wealth. A Government enjoys a higher credit standing among its own people than among others, and consequently an internal loan sells on a lower basis than an external loan.

The bonds of the United States may be divided into two broad classes: (1) pre-war issues, (2) war issues. Of the first there are seven issues outstanding, three of which are intended primarily as collateral for securing National bank notes and Federal Reserve bank notes, the others being suitable for institutional and private investment. A great majority of the latter are held by banks to secure the deposits of the Federal Government and other governmentalities. These are classified as follows:

\$599,724,050	Consol 2s (payable at the pleasure of the government after April 1, 1930).
74,901,580	Panama 2s (redeemable at the government's option after August 1, 1916, and November 1, 1918, and payable August 1, 1936, and November 1, 1938).
11,250,000	Postal Savings 2½s (redeemable one year after date of issue and payable twenty years from date of issue).
50,000,000	Panama 3s (payable June 1, 1961).
28,894,500	Conversion 3s (payable January 1, 1946).
118,489,900	Old 4s (redeemable at the pleasure of the government after February 1, 1925).

\$883,260,030

United States bonds have a lower range of fluctuation than any other kind of loans, and consequently possess the highest cash equivalent value. In the panic of 1907 Government bonds declined on an average of 5 per cent., whereas municipal bonds declined 11 per cent. (See *Fluctuating Principle*.) They also sell on the lowest yield basis. In 1911, the 2 per cent. Consols sold on a 1.95 basis. For description of the War Issues (Liberty Bonds and Victory Notes) see *Liberty Bonds*.

### United States Cotton Futures Act

See *Cotton Futures Act*.

### United States Depository

See *Depository*.

### United States Money

There are four kinds of metallic, and seven kinds of paper money issued in the United States, as follows:

#### METALLIC MONEY

1. Minor Coins:
  - (1)—1c. pieces (coppers).
  - (2)—5c. pieces (nickels).
2. Subsidiary Silver Coins:
  - (1)—10c. pieces (Dimes).
  - (2)—25c. pieces (Quarters).
  - (3)—50c. pieces (Half Dollars).
3. Standard Silver Dollars.
4. Gold Coins:
  - (1)—\$5.00 piece (Half Eagle).
  - (2)—\$10.00 piece (Eagle).
  - (3)—\$20.00 piece (Double Eagle).

#### PAPER MONEY

- (1)—United States Notes or "Legal Tenders."
- (2)—Gold Certificates.
- (3)—Silver Certificates.
- (4)—United States Treasury Notes of 1890.
- (5)—Federal Reserve Notes.
- (6)—Federal Reserve Bank Notes.
- (7)—National Bank Notes.

The following chart shows the various kinds of United States Money with their principal attributes:

KIND.	SECURITY.	HOW REDEEMABLE.	WHERE REDEEMABLE.	LEGAL TENDER QUALITIES.	DENOMINATIONS.
Minor Nickel and Copper coins		In sums or multiples of \$20 in lawful money	United States Treasurer	Legal Tender up to 25 cents	1 c., 5c.
Subsidiary Silver Coins		In sums or multiples of \$20 in lawful money	United States Treasurer	For amounts not exceeding \$10 in any one payment	10c., 25c., 50c.
Standard Silver Dollars		Not redeemable		Full legal tender except when otherwise expressly stipulated in the contract	\$1
Gold Coins		Not redeemable		Full legal tender	\$5, 10, 20

KIND	SECURITY	HOW REDEEMABLE	WHERE REDEEMABLE	LEGAL TENDER QUALITIES	DENOMINATIONS
United States Notes "Legal Tenders"	Gold Reserve equal to 43.35 per cent. of issue	Gold	United States Treasurer	Legal tender except for duties on imports and interest on the public debt	\$1, 2, 5, 10, 20, 50, 100, 500, 1,000, 5,000, 10,000
Gold Certificates	100 per cent. in gold	Gold	United States Treasurer or any Federal Reserve Bank	Full legal tender	\$10, 20, 50, 100, 500, 1,000, 5,000, 10,000
Silver Certificates	100 per cent. in silver	Silver	United States Treasurer or any Federal Reserve Bank	Not legal tender but receivable for all taxes, customs and public dues	\$1, 2, 5, 10, 20, 50, 100, 500, 1,000
Treasury Notes of 1890	Silver	Silver or Gold	United States Treasurer	Full legal tender except where otherwise expressly stipulated in the contract	
Federal Reserve Notes	100 per cent. in Commercial Paper, Gold or Gold Certificates in any proportion except that Gold Reserve must equal 40 per cent. of issue	Gold or lawful money	United States Treasurer or any Federal Reserve Bank	Not legal tender, but receivable for all taxes, customs and public dues	\$5, 10, 20, 50, 100, 500, 1,000, 5,000, 10,000
Federal Reserve Bank Note	100 per cent. in U. S. Government Bonds having circulating privilege	Gold	United States Treasurer or any Federal Reserve Bank	Not legal tender, but receivable for all public dues except on imports. Cannot be used by Government to pay interest or to redeem currency	\$1, 2, 5, 10, 20, 50, 100, 500, 1,000
National Bank Note	Same as Federal Reserve Bank Note	Gold	United States Treasurer or any National Bank of issue	Same as Federal Reserve Bank Note	\$5, 10, 20, 50, 100

For description of each of these kinds of money see *Minor Coins, Subsidiary Silver Coins, Silver Dollar, Gold Coins, United States Notes, Gold Certificates, Silver Certificates, Treasury Notes of 1890, Federal*

*Reserve Notes, Federal Reserve Bank Notes, National Bank Notes.*

Also see *Money, Token Money, Fiat Money, Irredeemable Money, Quantity Theory of Money.*



## United States Notes

Notes created by several Acts passed during the Civil War, also known as legal tender notes, and as "legal tenders," and "greenbacks," because they were the first bills to be engraved with green backs. They are issued in denominations as follows: \$1, \$2, \$5, \$10, \$20, \$50, \$100, \$500, \$1,000 and \$10,000, but mostly in small denominations. This issue bears a red seal on the obverse side.

The Act of February 25, 1862, authorized the issue of \$150,000,000 of which \$50,000,000 were in lieu of an equal amount of demand notes, and could be issued only as the demand notes were cancelled. A second issue of \$150,000,000 was authorized by the Act of July 11, 1862, of which, however, \$50,000,000 were to be a temporary issue for the redemption of a debt known as the temporary loan. A third issue of \$510,000,000 was authorized by the Act of March 3, 1863. The total amount authorized, including the temporary issue, was \$450,000,000, and the highest amount outstanding at any time was \$449,338,902 on January 30, 1864. There are still outstanding \$346,681,016.

The reduction from the original permanent issue of \$400,000,000 to \$346,681,016 was caused as follows: The act of April 12, 1866, provided that United States notes might be retired to the extent of \$10,000,000 during the ensuing six months, and that thereafter they might be retired at the rate of not more than \$4,000,000 per month. This authority remained in force until it was suspended by the Act of February 4, 1868. The authorized amount of reduction during this period was about \$70,000,000, but the actual reduction was only about \$44,000,000. No change was made in the volume of United States notes outstanding until after the panic of 1873, when, in response to popular demand, the Government reissued \$26,000,000 of the cancelled notes.

This brought the amount outstanding to \$382,000,000, and it so remained until the resumption Act of January 14, 1875 provided for its reduction to \$300,000,000. The process was, however, again stopped by the Act of May 31, 1878, which required the notes to be reissued when redeemed. At that time the amount outstanding was \$346,681,016, which is the present amount. The amount of United States notes redeemed from the fund raised for resumption purposes since January 1, 1879, to June 30, 1915, was \$971,241,137; but the volume outstanding is undiminished because of the provisions of the Act of May 31, 1878, which require the notes

so redeemed to be paid out again and kept in circulation.

The Act of March 14, 1900, also directed the reissue of United States notes when redeemed, but they must first be exchanged for gold as provided in the said Act. The Act also provides that when silver certificates of large denominations are cancelled, and small denominations issued in their place, a like volume of small United States notes shall from time to time be cancelled and notes of \$10 and upward issued in substitution therefor.

The Act of March 4, 1907, provides for the issue, under certain conditions, of United States notes in denominations of \$1, \$2, and \$5, and upon such issue an equal amount of United States notes of higher denominations shall be retired and cancelled.

The Act of March 14, 1900, increased the reserve fund to \$150,000,000 of gold coin and bullion for the redemption of United States notes and after setting forth the methods to be employed in maintaining the fund provided that if at any time notwithstanding the reserve should fall below \$100,000,000 then "it shall be his (the Secretary's) duty to restore the same to the maximum sum of \$150,000,000 by borrowing money on the credit of the United States, and for the debt thus incurred to issue and sell coupon or registered bonds of the United States." They are redeemable by the United States Treasurer in gold and are legal tender except for duties on imports and interest on the public debt. Since the resumption of specie payments on January 1, 1879, these notes have been fully accepted and received in payment of customs duties, though the law has not been changed.

## United States Postal Savings Banks

See Postal Savings Bank.

## United States Treasurer

See Treasury Department.

## Unit of Value

Same as Monetary Unit. (See Monetary Unit, Money of Account, Standard of Value.)

## Universal Numerical System

See Numerical Transit System.

## Unlawful Loans

Loans made by banks in violation of the banking laws. Unlawful Loans may be divided into four classes: (1) those in excess

of the maximum allowed to one borrower (see *Limitations on Bank Loans*); (2) loans in excess of the legal rate of interest (see *Legal Rate of Interest, Usury*); (3) loans to certain persons such as bank officers, directors and employees which are prohibited among National banks and usually among state banks unless approved by a majority of the board of directors; (4) loans for certain purposes, *e. g.*, a National bank may not loan upon real estate with a second mortgage as security.

### Unlisted Securities

Securities not admitted to registration, listing, public quotations, or trading on an organized stock exchange. Trading in such securities is conducted by brokers for their customers with other brokers, dealers, and customers (wherever a market can be found) without a public record of sales and quotations. Such trading is sometimes designated as "over the counter," certain brokers making a specialty of dealing in unlisted securities. It is sometimes said that unlisted securities are immune from the effect of false rumors, bad news and other methods employed by pools and cliques to manipulate prices of listed securities. Whatever advantages unlisted securities may enjoy as investments, they suffer in comparison with listed securities in marketability and loan value.

The term is sometimes restricted to mean securities not listed on the New York Stock Exchange. This is a narrow interpretation. Unlisted securities are necessarily the reciprocal of listed securities and should therefore be interpreted to mean securities not listed on any stock exchange.

### Unload

An expression used to indicate the sale of securities or commodities to avoid a loss due to a falling market, or any expected unfavorable development; "to get out from under" before prices collapse. Very often the "insiders," *i. e.*, officers of a corporation, unload their holding of the securities of their corporation in anticipation of poor earnings or threatened insolvency, upon the public. The expression is usually applied to transactions on a large scale.

### Unsecured Creditor

A general creditor; a person or company which has no security or other legal claim upon specific property to satisfy a debt. An unsecured creditor shares in the distribution of the assets of a bankrupt equally with all others after preferred and secured claims have been met. (See *Liabilities*.)

### Unsteady

An expression used to describe the stock market when prices fluctuate widely, but close without showing a definite tendency.

### Unvalued Shares

See *Without Par Value*.

### Usance

The customary term or tenor of a bill of exchange, varying in different parts of the world; practically synonymous with term, or tenor. (See *Term*.)

### Usury

From the Latin, "usura," meaning enjoyment, interest, *i. e.*, money paid for the use of money. Although the term originally meant interest, in modern times it has come to mean excessive interest, particularly interest in excess of the maximum rate fixed by the laws of the various states.

Usury was common among the early Jews, Greeks and Romans. Rates charged for the use of money were so excessive, and the effects upon borrowers often so disastrous, that usury fell into disrepute among Christians during the Middle Ages.

In England the legal maximum rate is determined by equity; in France the rate on ordinary loans is 5 per cent.; in commercial transactions, 6 per cent. In the United States, interest rates are regulated by the various states, which prescribe a maximum legal rate. (See *Legal Rate of Interest*.)

The penalties for violation of the usury laws vary in the different states. In some states creditors can recover principal and interest, losing only excess interest, while in others, a usurious contract is void, and the lender is subject to fine and imprisonment.

## V

### Valorization

The process of attempting to establish a higher market price for a commodity by governmental interference than would obtain by free and open competition. The arbitrary market value is established in several ways, *e. g.*, governmental maintenance of a purchasing fund, and by governmental loans to producers to enable them to hold their products awaiting a favorable market opportunity, etc. Some years ago the Government of Brazil attempted to valorize coffee which had declined to a price far below its normal cost of production.

### Valuation

Appraisal or act of appraisement; money worth; estimated value; appraised value.

### Value

The ratio at which commodities or services exchange; the power of one commodity or service to command other commodities or services in exchange. In all civilized countries, for the sake of convenience, money is used as a common denominator, or yardstick of value, so that the values of other commodities and services are expressed as ratios to the standard money.

The explanation of value, that is, why goods and services command the money prices they do, is one of the most difficult problems in economics.

Price differs from value in that the former is value in money terms; moreover, a thing may have value without having a price, *e. g.*, something which is not for sale.

While the above serves as a general definition of the term, there are many special connotations as expressed in such terms as book value, market value, par value, etc. These terms are treated separately. (See Assessed Value, Book Value, Intrinsic Value, Inventory Value, Investment Value, Market Value, Par Value, Trading Value.)

### Value Date

The date upon which the proceeds of a check or other instrument deposited for credit become available for withdrawal, *i. e.*, have a value. The term is used particularly in foreign exchange bookkeeping to indicate the date upon which the proceeds of a draft

become available for the use of a customer or correspondent, or upon which a remittance becomes available in the account of the purchaser abroad.

### Vault

A secure space for the protection and storage of valuable property. Among banks three types of vaults are used—money vaults, record vaults, and storage vaults. The latter type of vault is for the protection of current and old records, etc., and is proof against fire and water. Money vaults are designed to be proof against fire, water, burglars, and mob violence.

Money vaults vary greatly in size and construction, those of safe deposit companies oftentimes occupying an entire basement or ground floor. Many ingenious devices have been invented to secure protection against burglars, and among the larger banks a large number of these devices are in use. The larger vaults are equipped with 2-ft. thick armor plate steel walls, and 3-ft. steel doors. Since most burglars gain access to a vault through the door by boring or drilling the combination, it is necessary to give it added protection. Such added protection may consist of an electric signal alarm system communicating with the local burglar alarm company and setting off an alarm bell in the bank; a time lock, and by running an electric current through the door. The time lock does not open the door automatically, but prevents its opening before a prearranged hour. By means of an electric current, any person tampering with the combination, or bolts of the door is gripped by an electric current. The vault wall itself is very often embedded in a concrete case. In some banks, a network of wires is run through the vault wall so that the slightest puncture will produce a contact that will notify the local burglar alarm company and set off an alarm in the bank. If burglars gain access to the interior of the vault, steam jets may be so arranged as to fill the place with live steam in a few moments.

The interior of a vault is usually divided into many compartments, each of which is protected by one or more combination locks which, like the outside combination, are subject to joint control. (See Joint Control.) The combinations to these locks are known



by separate officers having custodianship over certain portions of the bank's assets; thus, several compartments may contain the bank's money reserve, another United States bonds; another other securities; another securities pledged as collateral; another securities for which the bank is custodian; another trust department assets, etc. (See Safe Deposit Company.)

### Velvet

An easily made profit; bonus; net profit clear of expenses. An expression to denote a profit made on a speculative transaction.

### Vendee

One to whom something is sold.

### Vendor

One who sells, or who has sold, something.

### Victory Notes

See Liberty Bonds.

### Vise

An official indorsement on a passport, or other document as an approval or attestation of its validity. A vise is a certification that a document has been examined by the proper authorities and found to be correct and regular in all respects.

### Visible Supply

Stocks of goods subject to statistical measurement.

A term used particularly to denote the stocks of grain in public and private terminal elevators, at all terminal markets, and the amount in transit, as distinguished from the amount held on the farms. It is also used to indicate the stocks of other commodities on hand at the principal sources of production, *e. g.*, copper stocks at refineries, raw sugar supplies held by importers and refineries, hides held by packers, tanners, and importers, etc.

### Visitorial Powers

Banks are not subject to examination or investigation other than that provided by law. National banks, and members of the Federal Reserve System, are subject to examination only by regular constituted authorities which include National bank examiners, special examinations by the Federal Reserve bank of the district (with approval of the Federal Reserve Board), and the

Federal Reserve Board itself. (See Federal Reserve Act, Section 21.) They are subject, however, to investigation by a court, or by either house of Congress, or by a committee appointed by either House of Congress.

Federal Reserve banks are subject to examination by the Federal Reserve Board. (See Bank Examinations.)

### Voluntary Association

A rare form of business organization similar to that of a *Trust* (q. v.) in the popular sense. The trust form of organization has been declared illegal. In Massachusetts, however, a large number of real estate voluntary associations exist, by which the management of the business is given over to a number of trustees by a deed of trust from the stockholders. The stockholders receive transferrable certificates which represent their interest in the association.

### Voluntary Bankruptcy

See Bankruptcy.

### Voluntary Trust

See Living Trust.

### Vostro Accounts

A term used in foreign exchange book-keeping to denote the accounts of foreign banks, or other foreign correspondents having dollar balances on deposit with a domestic bank, or other institution. The term literally means "your accounts," and is the antonym of *Nostro Accounts* (q. v.).

### Voting Power

One of the rights of a stockholder as owner of shares of stock is to participate in the control of the corporation by means of voting. Ordinarily, stockholders of record are entitled to one vote for each share owned.

### Voting Trust

A trust created in which the stockholders of a single corporation deposit their stock in the custody of designated trustees, called voting trustees, who issue stock trust certificates, or voting trust certificates, in exchange. The stockholders retain all rights in their stock except voting power, which is delegated to the trustees under the terms, and during the life of, the voting trust agreement. Voting trusts are usually created in reorganizations when it is desirable to concentrate the control in the hands of capable persons in order that the corporation may be better tided over the difficult period. Other-

wise, the purpose is to secure continuity in policies, management, and operation, *e. g.*, a voting trust, representing preferred stockholders, is sometimes established upon default in payment of preferred dividends.

Under the New York and New Jersey laws, a voting trust agreement is limited to five years. Other states have enacted laws imposing similar limitations. Trust companies are often appointed by voting trustees to act as custodian of stock certificates, to issue and transfer voting trust certificates in exchange, and to disburse dividends received upon the stock to the proper owners.

The National bank laws do not authorize the creation of voting trusts for National banks.

### Voting Trust Certificate

First read *Voting Trust*.

A certificate issued by the voting trustees to a stockholder as a negotiable receipt for stock certificates deposited with such trustees.

### Voting Trustees

See Voting Trust.

### Voucher

A receipt; a receipted bill or statement; any paper evidencing a money expenditure or payment of a debt. Cancelled checks are often called vouchers because they offer proof of payment. Originally, a voucher meant a person or paper that afforded proof, or bore witness concerning some matter under examination.

### Voucher Check

A special form of check combining the features of a formal receipt and a check. On a voucher check space is reserved in the left hand margin, or on the reverse side, to indicate the goods, services, or debt owing,

*i. e.*, statement of account or invoice, for which the check is in payment. A variant form of the voucher check is a double sized check folded in the middle, one sheet operating as a check and the other as a voucher.

The advantage of a voucher check is that each bill is identified with its payment, and when the check is returned from the bank indorsed by the payee (creditor), it constitutes unquestionable evidence of payment. The voucher check is in general use among large corporations where the voucher system is in operation. In personal checking transactions, an ordinary cancelled check serves the purpose of a receipt quite as well as a voucher check.

### Voucher Department

The department of a bank, the function of which is to cancel, verify, file, store, and forward cancelled checks or vouchers to the depositors who drew them, after they have been posted to the debit of depositors' accounts on the ledgers and statements. Checks are cancelled as of the date they are paid and posted to the drawer's account. Cancellation is effected by means of a perforating machine which cuts the following words into the check: "Paid..... (date) ..... Blank Bank." The cancelled checks are then sorted by customers' accounts, and filed until the statements are prepared. They are arranged in the order of payment, which is the same as the order in which they appear on the statement. When the latter is ready, the cancelled checks are verified by "checking" them against the entries on the statement. Individual customers' cancelled checks are usually combined with the statement, placed in an envelope, and retained at the bookkeeper's window until called for by the customer. Cancelled checks are sent to out-of-town customers by registered mail, or express.

## W

### Waiver

Voluntary renunciation or relinquishment of a legal right. (See Waiver of Demand, Waiver of Notice, Waiver of Protest.)

### Waiver of Demand

It is required by law that notice of demand and protest be given to indorsers of a check, bill, or note, in case of dishonor. Although the parties secondarily liable are entitled to receive notice of dishonor and refusal to pay, it is a right which they may waive. (See Protest Waived.)

### Waiver of Notice

This term has two applications:

(1) See *Protest Waived*.

(2) Directors and stockholders of a corporation are entitled to receive notice of meetings, but they may waive all statutory and by-law requirements as to notice or publication of the time, place, and purpose of such meetings, by written agreement.

### Waiver of Protest

See Protest Waived.

### Wall Street

A popular designation for the financial district of New York and by extension, the financial interests of the United States. The Wall Street district includes not only the New York Stock Exchange, the New York Consolidated Exchange, and the New York Curb Market with the brokerage houses of their members, but also the largest banks and trust companies, the New York Clearing House, many of the general offices of the large industrial, railroad and insurance companies, a large number of the import, export, and steamship companies, Chamber of Commerce, Customs House, and the Produce, Cotton, Coffee and Sugar, and Metal Exchanges.

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### Ward

A person who has not yet attained his majority, and whose person and estate are in charge of a *Guardian* (q. v.).

### Warehouse Act

See Warehouse Receipts Act.

### Warehouse Certificate

Same as *Warehouse Receipt* (q. v.).

### Warehouse Company

A company engaged in the business of storing goods and merchandise for hire. Such a company has a lien on property stored for the amount of the charges, and an insurable interest in such property to the extent of charges, and any advances that may have been made thereon. (See Warehouse Receipt.)

### Warehouse Loans

Loans made against warehouse receipts, *i. e.*, against the evidence of goods stored in a warehouse. (See Warehouse Receipt.)

### Warehouseman

See Warehouse Company, Warehouse Receipt.

### Warehouse Receipt

A receipt for goods stored in a warehouse; an undertaking in which the warehouseman or warehouse company acknowledges receipt and agrees to the safe custody and redelivery of the therein described goods upon surrender of the receipt properly indorsed and payment of the charges. To the owner or



holder to whom the goods are deliverable it also constitutes a document of title.

Warehouse receipts are issued in negotiable and non-negotiable form, but usually the former in order that they may serve as collateral for bank loans. Since they do not call for payment in money they cannot technically be called *Negotiable Instruments* (q. v.). A non-negotiable receipt states that the goods will be delivered to the depositor or to some other person designated on its face. A negotiable receipt states that the goods will be delivered to the bearer or to

provided the merchandise stored is not subject to rapid physical deterioration, nor to excessive market depreciation. In case of deterioration or decline in value, the warehouseman is compelled to notify the depositor of the merchandise, and the bank which has made advances against the receipt. Since the warehouseman is not responsible in case of loss or damage by fire, the receipt should be accompanied by a fire insurance certificate if offered as bank collateral.

The following is a typical form of negotiable warehouse receipt:

.....Warehouse Company  
1000 Main Street

No. .... New York .....19.....

RECEIVED on storage in warehouse, 1000 Main Street, New York City from  
.....  
the following packages (contents and condition of contents unknown) ex .....  
..... said to contain the goods described below.

MARKS	NUMBER	PACKAGES	KIND.	DESCRIPTION.
.....	.....	.....	.....	.....

Which will be delivered to order on payment of the charges specified hereon  
and the surrender of this receipt.

Advances made .....  
Labor in and out ..... Warehouse Company  
Storage per month .....  
.....  
President

FORM OF WAREHOUSE RECEIPT

the order of some person named therein. Negotiable receipts are printed on a yellow form and non-negotiable receipts on a white form.

Under the Federal Warehouse Receipts Act a warehouse receipt may be issued only by a licensed warehouseman, and must contain the following essential details: (1) name and location of the warehouseman, (2) date of issue of receipt, (3) consecutive number of the receipt, (4) whether the goods are deliverable to order or to bearer, or to a specified person, (5) description of the goods, stating grade or class, (6) if owned in part by the warehouseman, a statement of that fact, (7) signature of the warehouseman, and (8) rate of storage charges.

Warehouse receipts offer an important basis of commercial credit, and are frequently employed by importers, manufacturers, and merchants as collateral for bank loans. They are regarded as good collateral

(See Warehouse Receipts Act.)

### Warehouse Receipts Act

Prior to 1916 warehouse and elevator companies were under the regulations of the separate states. At the instigation of the Department of Agriculture, Congress passed the Federal Warehouse Receipts Act on August 11, 1916. The purpose of this act is two-fold: (1) to standardize the type of warehouses storing agricultural products acceptable as collateral for bank loans, and (2) to standardize warehouse receipts in order to furnish more satisfactory evidence of storage and to obtain more complete records.

Under the Federal Act, warehouses are licensed and brought under the inspection service of the Department of Agriculture. Periodic reports are required of all warehousemen so that their financial condition, and the physical condition of their properties may be known at all times. The principal

classes of merchandise stored in warehouses under warehouse receipts that are acceptable as bank collateral are grains, cotton, wool, silk, tobacco, sugar, coffee, and seeds.

### War Finance Corporation

A corporation created by the Act of April 5, 1918, for the purpose of aiding financing of essential war industries and the marketing of their products.

### War Loans

The bonded obligations of a Government issued during, and for the purpose of financing, the war. In the United States this term applies to the four Liberty Bond issues, and the Victory Notes. (See Liberty Bonds.)

### War Paper

Same as *War Loans* (q. v.).

### Warrant

A short term obligation of a municipality, or other political subdivision, constituting a part of its floating debt. A warrant is practically a revenue bond issued in anticipation of tax collections.

Federal reserve banks are permitted to invest in such warrants as are defined by the Federal Reserve Act, thus: "with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any state, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchase to be made in accordance with rules and regulations prescribed by the Federal Reserve Board." See Regulation F, Series of 1920. (See Dividend Warrant, Interest Warrant, Municipal Warrant.)

### Warranty Deed

See Deed.

### Wash Sale

A form of manipulation whereby a pretended or fictitious sale of securities occurs between two conspiring stock exchange members, or speculators acting through brokers. The sale is executed at a price higher than the prevailing market and the inflated quotation appears upon the ticker, thus creating an impression of activity and strength in the hope of inducing the public to buy at the inflated price. The excess price paid by the

buyer is remitted by the seller. Wash sales are prohibited by the rules of the principal stock exchanges.

### Wasting Assets

Exhaustive assets; assets of companies engaged in the extractive industries which become depleted as they are worked. Thus, mines, quarries, and oil wells, are wasting properties, and their value declines in proportion as the mineral product which they contain is extracted. The decline in value of wasting assets is sometimes offset by making depletion charges against earnings and setting up a depletion reserve with the object of reserving sufficient income to redeem the capital stock at par when the assets have become exhausted.

### Water Bonds

A sub-classification of municipal bonds, the purpose of which is to furnish the municipality with a supply of water. These bonds are of the highest grade investments, since not only are they issued for an essential purpose, but in many cases the water plant of a municipality earns the interest on the water bonds, thereby making it unnecessary for the city to provide such interest out of taxes.

### Water Company Bonds

Bonds of a public utility corporation having a franchise to furnish water to a municipality for hydrant and other purposes. They are, therefore, not to be confused with water bonds which are municipal bonds. Water company bonds are good investments when the company is properly managed, has an adequate source of supply, and adequate earnings. The life of the bonds should be within the life of the franchise.

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### Watered Capital

See Watered Stock.

### Watered Stock

A popular metaphorical expression given to stock, the par value of which is in excess of the value of the net tangible assets which it represents. Watered stock is created in several ways: (1) by issuing stock for money or other property less than its par value; (2) by giving stock away to the promoters or organizers for their services, or to stockholders as a bonus; (3) by an im-

pairment of assets through an operating deficit, and (4) by issuing stock against a fictitious or intangible asset.

The amount of watered stock in a corporation may be determined by the excess of the par value of its stock over its tangible assets. Inasmuch as the assets must be at least equivalent to the stock, the "water" masquerades under the name of some fictitious or intangible asset, *e. g.*, good will, patents, trade marks, and the like, or else by an overvaluation of the tangible assets.

Many companies which were originally organized with watered stock have since squeezed the water out by retention of a part of the earnings and re-investing them in the business. In the case of some enterprises which have been extraordinarily profitable, *i. e.*, earning a large per cent. of return upon the capital invested, stock has been watered for the purpose of concealing large profits. This has been accomplished by increasing stock against some intangible asset, usually patents, or good will. In such a case, although the stock is watered, the company cannot be said to be over-capitalized, since over-capitalization presupposes that the corporation cannot pay even a moderate return upon the capital outstanding. (See Overcapitalization.)

### Water Power Company Bonds

Bonds of hydro-electric power companies, being a sub-classification of public utility bonds. The investment value of these bonds depends upon many factors which require separate analysis in each case. Among the most important are the reliability of the water supply, the power market, nature of contracts, value of the security, margin of earnings over interest requirements, and the like.

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### Weak

An expression used to denote that stock or commodity prices have a declining tendency. A weak security or commodity, or a weak market, is one in which prices are lower than for the previous day.

### Wealth

The money value of a person's possessions or rights in personal and real property. National wealth is the aggregate of the wealth of individuals plus social wealth, *i. e.*, the property of the Federal Government and its

political subdivisions which include federal, state, and city public works, buildings, parks, museums, and the like. In computing National wealth care must be taken to avoid double accounting, *e. g.*, a railroad property is wealth, but it is represented also by stocks and bonds owned by individuals, which they in turn consider as a part of their wealth. It would be erroneous to count both the value of the railroad property and the value of its stocks and bonds in computing National wealth. (See National Wealth.)

### Webb-Pomerene Act

An act, also known as Export Trade Act (Public Document 126), passed April 10, 1918. This act eliminates the restrictions imposed by the Sherman and Clayton Acts upon trade combinations by exempting such combinations as are organized for foreign trade from the provisions of those laws.

The text follows:

An Act to promote export trade, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the words "export trade" wherever used in this Act mean solely trade or commerce in goods, wares, or merchandise exported, or in the course of being exported from the United States or any Territory thereof to any foreign nation; but the words "export trade" shall not be deemed to include the production, manufacture, or selling for consumption or for resale, within the United States or any Territory thereof, of such goods, wares, or merchandise, or any act in the course of such production, manufacture, or selling for consumption or for resale.

That the words "trade within the United States" wherever used in this Act mean trade or commerce among the several States or in any Territory of the United States, or in the District of Columbia, or between any such Territory and another, or between any such Territory or Territories and any State or States or the District of Columbia, or between the District of Columbia and any State or States.

That the word "association" wherever used in this Act means any corporation or combination, by contract or otherwise, of two or more persons, partnerships, or corporations.

SEC. 2. That nothing contained in the Act entitled "An Act to protect trade and commerce against unlawful restraints and monopolies," approved July second, eighteen hundred and ninety, shall be construed as declaring to be illegal an association entered into for the sole purpose of engaging in export trade and actually engaged solely in such export trade, or any agreement made or act done in the course of export trade by such association, provided such association, agreement, or act is not in restraint of trade within the United States, and is not in restraint of the export trade of any domestic competitor of such association: *And provided further,* That such association does not, either in the United States or elsewhere, enter into any agreement, understanding, or conspiracy, or do any act which artificially or intentionally enhances or depresses prices within the United States or commodities of the class exported by such association, or which substantially lessens competition within the United States or otherwise restrains trade therein.

SEC. 3. That nothing contained in section seven of the Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," approved October fif-



teenth, nineteen hundred and fourteen, shall be construed to forbid the acquisition or ownership by any corporation of the whole or any part of the stock or other capital of any corporation organized solely for the purpose of engaging in export trade, and actually engaged solely in such export trade, unless the effect of such acquisition or ownership may be to restrain trade or substantially lessen competition within the United States.

SEC. 4. That the prohibition against "unfair methods of competition" and the remedies provided for enforcing said prohibition contained in the Act entitled "An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes," approved September twenty-sixth, nineteen hundred and fourteen, shall be construed as extending to unfair methods of competition used in export trade against competitors engaged in export trade, even though the acts constituting such unfair methods are done without the territorial jurisdiction of the United States.

SEC. 5. That every association now engaged solely in export trade, within sixty days after the passage of this Act, and every association entered into hereafter which engages solely in export trade, within thirty days after its creation, shall file with the Federal Trade Commission a verified written statement setting forth the location of its offices or places of business and the names and addresses of all its officers and of all its stockholders or members, and if a corporation, a copy of its certificate or articles of incorporation and by-laws, and if unincorporated, a copy of its articles or contract of association, and on the first day of January of each year thereafter it shall make a like statement of the location of its offices or places of business and the names and addresses of all its officers and of all its stockholders or members and of all amendments to and changes in its articles or certificate of incorporation or in its articles or contract of association. It shall also furnish to the commission such information as the commission may require as to its organization, business, conduct, practices, management, and relation to other associations, corporations, partnerships, and individuals. Any association which shall fail so to do shall not have the benefit of the provisions of section two and section three of this Act, and it shall also forfeit to the United States the sum of \$100 for each and every day of the continuance of such failure, which forfeiture shall be payable into the Treasury of the United States, and shall be recoverable in a civil suit in the name of the United States brought in the district where the association has its principal office, or in any district in which it shall do business. It shall be the duty of the various district attorneys, under the direction of the Attorney General of the United States, to prosecute for the recovery of the forfeiture. The costs and expenses of such prosecution shall be paid out of the appropriation for the expenses of the courts of the United States.

Whenever the Federal Trade Commission shall have reason to believe that an association or any agreement made or act done by such association is in restraint of trade within the United States or in restraint of the export trade of any domestic competitor of such association, or that an association either in the United States or elsewhere has entered into any agreement, understanding, or conspiracy, or done any act which artificially or intentionally enhances or depresses prices within the United States of commodities of the class exported by such association, or which substantially lessens competition within the United States or otherwise restrains trade therein, it shall summon such association, its officers, and agents to appear before it, and thereafter conduct an investigation into the alleged violations of law. Upon investigation, if it shall conclude that the law has been violated, it may make to such association recommendations for the readjustment of its business, in order that it may thereafter maintain its organization and management and conduct its business in accordance with law. If such association fails to comply with

the recommendations of the Federal Trade Commission, said commission shall refer its findings and recommendations to the Attorney General of the United States for such action thereon as he may deem proper.

For the purpose of enforcing these provisions the Federal Trade Commission shall have all the powers, so far as applicable, given it in "An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes."

**Welcher**

One who fails to live up to an agreement, which, though not enforceable at law, is a moral obligation, *e. g.* refusal to accept or deliver an order of goods, or cancellation of an order when the market goes against him.

**Wheat**

The second principal grain crop in the United States (ranking after corn), and ranking second to cotton as the chief export item. The production of wheat is widely distributed throughout the world in various belts in both the northern and southern hemispheres. As the result of different climatic conditions in countries having different lati-

PRODUCTION OF WHEAT IN THE UNITED STATES\*

Year.	Bushel.	Average Farm
		Price per bushel on Dec. 1.
1897	530,149,000	.....
1898	675,148,000	.....
1899	547,303,000	.....
1900	522,229,000	.....
1901	748,460,000	62.4c.
1902	670,063,000	63.0c.
1903	637,821,000	69.5c.
1904	552,399,000	92.4c.
1905	692,979,000	74.8c.
1906	735,260,000	66.7c.
1907	634,087,000	87.4c.
1908	664,872,000	92.8c.
1909	737,189,000	98.6c.
1910	695,443,000	88.3c.
1911	621,338,000	87.4c.
1912	730,267,000	76.0c.
1913	763,380,000	98.6c.†
1914	897,017,000	100.5c.
1915	1,025,801,000	130.7c.
1916	636,318,000	135.1c.
1917	636,655,000	227.8c.
1918	921,438,000	220.9c.
1919	934,265,000	235.7c.
1920	787,128,000	252.3c.
1921	814,905,000	143.5c.
1922	836,384,000	125.2c.

\* From U. S. Department of Agriculture.  
 † From 1913-1922, average price of No. 2 red winter, cash, at Chicago.

tudes, there is a wheat harvest in some country of the world for every month of the year.

Wheat enjoys a world market and while Chicago is the principal market in the United States (Chicago Board of Trade), our markets tend to take their cue from Liverpool, which is the European distributing center. Wheat consumption is fairly uniform throughout the world and consumption statistics by countries are available.

Annual output varies considerably among the separate producing countries due to the vagaries of crop yields. Prices are therefore largely dependent upon the annual world yield, and speculators study world crop conditions with great care. The chief statistics used in forecasting are the Government crop reports which are published monthly, and a number of reports distributed by private agencies. Government reports give acreage, crop conditions, indicted yields, and actual output. The following factors influence prices: acreage, weather, pests, farm labor supply, surplus (carry-over), foreign buying power, and sentiment.

(See Chicago Board of Trade, Crop Reports.)

### Wheat Pit

See Pit.

### When, As, and If Issued

See When Issued.

### When Issued

A term to indicate a conditional sale of a security; sales of new issues of stocks and bonds which have not been approved, or for which certificates or forms have not been issued or ready for delivery, and therefore contingent upon such issue.

### Whipsawed

An expression used among speculators to denote a double loss realized as the result of buying at the top of a movement and then when prices have reached the bottom, not only selling long stocks, but also selling a line of short stocks, which because of a subsequent upward turn in the market, are covered at a loss. As stated by one writer, being whipsawed consists of: "buying in the hope of a rise, but selling instead on a fall, then selling more, expecting a further fall, but being compelled to buy because the market goes up instead of down," *i. e.*, getting "caught, coming and going."

### White Elephant

An expression figuratively applied to any property which cannot be operated at a profit because the cost of operation would exceed the gross revenue, out of analogy to the white elephant, which eats more than its services are worth. Any business into which considerable capital has been invested, and which because of changes in fashion, or in the popular taste, or because of obsolescence, or other reason, cannot be profitably operated, and which could be sold only at a terrific loss, *e. g.*, a large hotel located at a once fashionable summer resort no longer popular.

### Wide Opening

An expression used to denote that opening prices for the same stock in an active market are wide apart.

### Wide Prices

An expression used to apply to the condition when bid and asked prices are not fractionally or at least normally close. Ordinarily the bid and asked prices for an active security are from  $\frac{1}{8}$  to  $\frac{3}{4}$  of a point apart, and when they are several points apart, *e. g.*, bid 10, asked 13 $\frac{1}{2}$ , they are said to be wide.

### Wild Cat Banks

A derisive name given to banks organized under the laws of the various states in the chaotic, uncontrolled and unsound banking period between the years 1811 and 1863. These banks were permitted to issue bank notes against personal notes, or bonds and mortgages of resident land owners, and in many cases were organized solely for the purpose of issuing paper money rather than carrying on a deposit and loan business. In Michigan, "many of these institutions were located in the depths of forests where there were few human habitations, but plenty of wild cats." They were purposely inaccessible to prevent redemption of their practically worthless notes. Bank failures were numerous and since the security behind these notes was inadequate and illiquid, the banks were unable to redeem them, thus resulting in large losses to the holders. There were approximately 1,600 different kinds of bank notes in circulation when the National Bank Act, in 1863, put an end to the note emissions of state banks.

### Wild Cat Company

An expression applied to an unsound or highly speculative business venture in which

the chance of success is slight, particularly a company organized to develop oil wells on leased lands before it is known positively that oil exists.

### Wild Cat Currency

Notes issued by the wild cat banks before the period of sound banking in the United States. (See Wild Cat Banks.) By extension this term refers to any depreciated or worthless money.

### Wild Cat Securities

Highly speculative, fraudulent, or worthless securities; securities of companies organized to exploit an unsound, fanciful or hazardous venture, but upon which the promoters promise large profits; securities of companies which represent nothing but "capitalized hopes." (See Wild Cat Company.)

### Will

A formal written testament or final disposition of property, to take effect after death, made by a person of sound and disposing mind, known as a testator. All persons are competent to make a will, except idiots, infants and insane persons, or those adjudged incompetent. In many states the will of an unmarried woman is deemed revoked by her subsequent marriage. A nuncupative or unwritten will is one made orally by a soldier in active service, or by a mariner at sea. The laws of most states require that a will be in writing, signed by the testator, or by some person in his presence and by his direction, and attested by witnesses, who must subscribe their names thereto in the presence of the testator. Most states require two witnesses, except in Connecticut, Maine, Massachusetts, New Hampshire, South Carolina and Vermont, which require three.

Although the form or wording of a will is immaterial, as long as its intent is clear, it is advisable to procure legal advice when a will is drawn. The advantages in making a will are: (1) the testator can name his own executor; (2) the estate can be more economically and expeditiously distributed; (3) any real estate can be sold without agreement of the heirs or without a suit in partition; (4) the estate can be more equitably distributed in accordance with the needs of the beneficiaries; and (5) a trust fund can be set up. (See Codicil.)

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### Winding Up

Liquidation, terminating a business by a voluntary dissolution or bankruptcy, and by sale of the assets, paying the debts, and distributing the balance, if any, to the owners. (See Bankruptcy, Liquidation.)

### Window Dressing

An expression applied to the practice of certain companies, of temporarily arranging their affairs in order to make a more favorable showing on the date of its published financial statement than actual conditions warrant. In its application to financial institutions the term has reference to temporarily increasing reserves just prior to a statement date by calling loans or selling securities, ostensibly to make it appear through the published statement that the reported reserve is habitually carried. (See Bank Statement, Comptroller's Call.)

### Wiped Out

An expression used to denote the loss by a speculator of money put up as margin, occasioned by a drop in the value of the securities purchased, and their consequent sale by the broker to protect his loan (customer's debit balance). By extension, this expression also applies to the total loss of one's wealth.

### Wire Fate Item

A term given to a check, draft, or note sent for collection from an out-of-town depositor or bank correspondent with instructions to report by telegraph whether or not the item was collected, *i. e.*, paid when presented.

### Wire Transfer

See Telegraphic Transfers.

### Withdrawal

A taking or drawing out. Commercial deposits are withdrawn by check and savings deposits by presentation of the passbook in which the amount is entered.



Securities or notes may be withdrawn from collateral supporting a loan by substitution of others.

### With Exchange

When the words "with exchange" or "payable with exchange" are written on a draft or check, exchange charges or collection costs, in addition to the face of the instrument, are payable by the drawee or payer, respectively.

### With Interest

Accrued interest included. A bond or note sold "with interest" must be paid for at the price named, plus interest at a specified rate. (See Accrued Interest.)

### Without Interest

Flat; interest not included. (See Flat.)

### Without Par Value

In some states, upon special application, shares of stock may be issued without a specified par value, but usually may not be sold below a certain minimum price. Such shares are known as "shares without par value," "shares of no par value," or as "unvalued shares." The number of unvalued shares which a certain certificate represents, and the total number of shares authorized must appear on the face of each stock certificate. In this way it is possible to determine the proportionate interest in the net assets of a corporation a given stock certificate represents, *e. g.*, in a corporation organized with 10,000 unvalued shares, a ten share stock certificate would represent 1/1000 interest in the corporation. It is well known by experienced investors that no necessary relationship exists between the par value, book value, and market value of a given stock, which, for example, may have a par value of \$100, book value of \$60, and a market value of \$30. Since, however, a specified par value implies that equivalent value has been paid in exchange, *e. g.*, a \$100 stock certificate implies the existence of \$100 in assets (which may or may not be true), doubtless the phrase, "of the par value of \$100" deceives many uninitiated persons. By the issuance of unvalued shares, a corporation avoids all controversy with regard to over-capitalization, under-capitalization, value of its assets, and the value of single shares.

The capital stock shown on the books and balance sheet of a corporation with unvalued shares indicates the number of shares au-

thorized and the value of the equity or net worth belonging to the stockholders. There is no surplus account. Dividends are paid on the basis of dollars per share.

### Without Recourse

See Indorsement.

### With Particular Average

See Average.

### Women's Investments

High grade investments in which safety of principal, regularity of income and freedom from care, are present in a high degree, *i. e.*, "disaster-proof" investments which require no watching.

### Women's Signatures

In business correspondence unmarried women should give their full signature with the first name written out, instead of initials, to prevent any mistake in identifying the sex, *e. g.*, Mary A. Roe. To indicate that she is unmarried, it is advisable to prefix the word "Miss" in parenthesis.

Since the law does not fix other than the surname of a married woman, she may sign her name in several ways, provided the surname given is that of her husband. When Mary A. Roe becomes Mrs. Doe, she may sign her name as (1) Mary A. Doe, (2) Mary Roe Doe, (3) Mary A. Roe Doe, or (4) Mary Doe.

Whenever a married woman signs papers transferring the title of property, acquired before marriage to another, it is customary and advisable for her to set forth the change in her marital condition in the body of the instrument, or on a separate document.

### Worked Off

A stock market expression used to denote that prices have gradually declined, but on the average, only fractionally.

### Working Capital

Accounting terminology is not thoroughly standardized, but in usage this term is defined as either (1) the sum of current assets, (2) or as the excess of current assets over current liabilities, *i. e.*, net current assets. The latter is the more logical interpretation of the term, since this sum approximately indicates the amount of capital required in a business to carry inventories, receivables, bank balances, and petty cash.

**Write Down**

See Write Off.

**Write Off**

To reduce the book value of an asset in order to bring it into agreement with its present "going," or market value. Depreciation, *i. e.*, physical deterioration or obsolescence, in buildings and machinery is charged as an expense of operation, and current depreciation is "written off" by reducing the value of the assets to which it applies, or by setting up a reserve. An uncollectible debt is written off by reducing its value to zero and charging the amount as a loss.

In banking practice, bonds, the market value of which have declined below the original cost, are "written down" to bring them into agreement with market value. For example, if bonds costing \$100,000 have a

present market value of \$90,000 their book value should be reduced to \$90,000 and \$10,000 charged as a loss against undivided profits. When the premium on a bond is written off by annual or semi-annual charges in order to bring the book value of the bond to par at maturity, the process is called *Amortization* (q. v.).

To "write off" and "write down" are practically synonymous, except that the first is always used when the *entire value* of an asset is charged as a loss, *e. g.*, bad debt.

**Write Up**

The opposite of writing down, *i. e.*, bringing the book value of bonds into agreement with the market value when the latter is above the former. Writing up is permissible only in case of assets that are constantly traded in and enjoy a broad and ready market.

## Y

### Yen

See Foreign Moneys—Japan.

### Yield

Investment income; investment rate of return, as distinguished from a speculative or temporary rate of return; the net income from property, but particularly applied to bonds bought as investments to be held to maturity. When a bond is bought for trading purposes its income is known as current return; if held to maturity, yield.

The yield of a bond depends upon four variables, viz.: (1) price; (2) interest rate; (3) interest period; and (4) term, *i. e.*, remaining life of the bond to maturity. The third variable may be omitted for practical purposes, since the interest on most bonds is payable semi-annually. Bonds paying interest annually are less valuable than bonds otherwise the same, paying interest semi-annually, but this difference for all practical purposes is negligible. (See Interest.)

A 5 per cent. bond purchased at par, regardless of its term, yields 5 per cent., but if purchased at a premium, its yield is less, and if at a discount, more, depending upon the term. The exact yield of a bond bought at a premium or discount can be determined by applying certain mathematical formulae, but in practice, the yield is determined by consulting bond values tables. (See Bond Value Table.) A 4 per cent. bond (interest payable semi-annually), having 20 years to run, and purchased at a premium of \$35, *i. e.*, \$1,035, yields  $3\frac{3}{4}$  per cent., but if purchased at a discount of \$33.50, *i. e.*, \$966.50, yields  $4\frac{1}{4}$  per cent.

Bonds for investment purposes are usually bought on a yield or investment value basis. Prices are quoted (at a price to yield ..... per cent.) since, when other factors are equal, yield is the only common denominator

for comparison of investment values. (See Investment Value.)

The term yield and return are often confused. The first is restricted in its meaning to the net income from a bond if held to maturity, whereas return denotes current income derived from either a bond or stock, without reference to a maturity. In the case of stock, the variables mentioned above are not fully known. There is no term or maturity value, nor is the income certain; therefore yield cannot be computed. The current return of a bond or stock is determined by dividing the purchase price into the annual cash interest or dividend. In the above case, where the purchase price of the bond is \$1,035 and the cash interest \$4.00, the current return is 3.865 per cent., whereas the yield is 3.75 per cent. The current return of a bond bought at a premium is higher than its yield, since no deduction need be made for the premium, which is lost when the bond matures. Conversely, the current return on a bond bought at a discount is lower than its yield, since the investment value of the bond increases as it approaches maturity.

The yield on *Optional Bonds* (q. v.) selling at a premium must be computed on the shortest possible time which they may be outstanding. If the optional bonds are selling at a discount, the yield must be computed upon the longest possible time they may be outstanding.

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### Yield to Maturity

See Yield.

### Yuan

See Foreign Moneys—China.









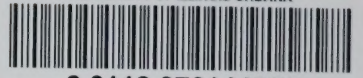








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